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ABSTRACT

This handbook discusses the following primary aspects of school accounting: Definitions and principles; opening the general ledger; recording the approved budget; a sample month of transactions; the balance sheet, monthly, and annual reports; subsidiary journals; payroll procedures; cafeteria fund accounting; debt service accounting; construction fund accounting; fixed assets accounting; program cost accounting; and machine accounting. A glossary of 109 terms is included. (JK)

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PRINCIPLES OF PUBLIC SCHOOL ACCOUNTING

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Council of Chief State School Officers
National School Boards Association

State Educational Records and Reports Series:
Handbook II-B

EA 002 695

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
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U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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Foreword

Principles Of Public School Accounting is the product of extensive cooperative effort of four national educational associations and the U.S. Office of Education.

This handbook is an extension of the State Educational Records and Reports Series, which includes Handbook I, *The Common Core of State Educational Information*, published in 1953; Handbook II, *Financial Accounting for Local and State School Systems—Standard Receipt and Expenditure Accounts*, 1957; Handbook III, *Property Accounting for Local and State School Systems*, 1959; Bulletin No. 21, *Financial Accounting for School Activities*, 1959; Handbook IV, *Staff Accounting for Local and State School Systems*, 1965; and Handbook V, *Pupil Accounting for Local and State School Systems*, 1964. As a procedural manual, it supplements the other handbooks in the series. It is designed as a guide for persons who may not have extensive training and experience in school finance accounting. In meeting this need, the handbook is potentially useful to large schools as well as small. As a means of self-improvement, inservice development, and ready reference it has a broad range of service.

Deliberations of the Association of School Business Officials over a period of several years pointed to the need for some type of an elementary accounting manual for local school systems. In 1960 the board of directors of this association requested the U.S. Commissioner of Education to initiate a project to produce such a manual and, in response, the project which resulted in this handbook was begun in the fall of 1962.

At its annual meeting in October 1964 the Association of School Business Officials adopted a statement of accounting principles and procedures relating to public school accounting which came to be an important guide in the development of this handbook.

A policy committee meeting on April 17, 1963, at the call of the U.S. Commissioner of Education, defined the purpose of the project as that of producing a manual-guide of procedures in school finance accounting based on the fundamental principles of recordkeeping for school funds. Attending the meeting were:

1. Finis E. Engleman, *Executive Secretary,*
   American Association of School Administrators
2. Edgar Fuller, *Executive Secretary,*
   Council of Chief State School Officers
3. Charles W. Foster, *Executive Secretary,*
   Association of School Business Officials of the United States and Canada
4. Barnard Joy, representing Harold V. Webb,
   Executive Director of the National School Boards Association
5. Lyman Bryan, *Director of the Washington Office,*
   American Institute of Certified Public Accountants
6. Sam B. Tidwell (Michigan Technological University),
   Consultant

An agreement was reached that a committee, to be known as the National Committee for the Improvement of Public School Accounting, should be appointed by the participating organizations to serve for the duration of the project. In addition, consultants were to be selected.

The participating organizations chose the following committee members and consultants:

Representing the American Association of School Administrators

William B. Curtis
Superintendent of Schools
Manchester, Connecticut
President-elect, AASA, 1966–67

Pinkney J. Newell
Assistant Commissioner
State Department of Education
Jefferson City, Missouri

Roderick F. McPhee
Superintendent of Schools
Glencoe, Illinois

Representing the Association of School Business Officials

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Chief, College Facilities Loans Branch
Committee Chairman

The project was initially planned under the general direction of James E. Gibbs, Jr., Chief, State Agency Support Branch, and completed under the general direction of Ivan N. Seibert, Chief, Elementary, Secondary, and Vocational Education Field Services Branch, in the U.S. Office of Education. Special acknowledgment is due Jerry N. Waddell and Richard J. Penrod, Office of Education staff members, who provided valuable counsel in the formative stages of the handbook.

The first national conference on the development of the handbook was held in Washington, D.C., on August 19–20, 1963. It was a planning conference designed to determine the handbook's depth, and its nature and detail. Joseph A. Perkins, Jr., of the Office of Education was selected by the committee to serve as its permanent chairman.

A second national conference, held in Washington, D.C., on June 18–19, 1964, had the purpose of reviewing and improving the first draft of the developing handbook. This deliberation provided the guidance for writing a second draft of the manual.

The third national conference on the project was held in Washington, D.C., on September 29–30, and October 1, 1965, to review the second draft of the handbook. A third and final draft was prepared following the conference. While it is recognized that some of the areas covered in this handbook may need to be expanded from time to time, the manual is submitted as a guide to improvement of school finance accounting.

OFFICE OF EDUCATION
ALEXANDER M. MOOD, *Assistant Commissioner, National Center for Educational Statistics*
ARNOLD A. HEYL, *Director, Division of Data Sources and Standards*

CHAPTER I

Introduction

This handbook is designed for people who will be recording and reporting to others on financial information about a school district; it is anticipated that readers and users of this handbook will range from those who are totally unfamiliar with the subject to those who have taken college courses in accounting. The handbook may be used as a self-instruction tool as well as a supplementary reference in formal methods of training in school accounting. To meet varying needs, the book proceeds on the assumption that the reader is a beginner in the field of financial recordkeeping and that other readers will use their own wisdom in selecting appropriate chapters of the handbook. To enable the reader to become more familiar with the principles suggested, the handbook presents a set of the accounting records for a hypothetical school district. These examples of accounting records may be used by the reader as a means of developing skills and understanding before assuming responsibility on the job. Further, the reader may find the handbook useful as a day-by-day guide in carrying out his responsibilities.

Keeping records is an important function in the operation and administration of schools. Without an adequate set of records to indicate what has happened or is happening in a school district, decisions about the management of the system and about governing policies would have to be based on memory or guesswork. With an adequate set of records summarizing the financial transactions and other activities of the school district, wise and informed decisions can be made. The person who systematically records information about the various financial activities of a school district provides a basic and an indispensable service.

Financial records must be developed and maintained on a consistent and systematic basis to provide information and service to many different groups, such as:

(a) The local school board, superintendents, school business managers, and principals, all of whom need up-to-date information to manage wisely and to report properly and accurately the finances of the school district.

(b) The residents and taxpayers of the school district who provide the monies which are used to operate the educational system.

(c) The business community such as banks, investment companies, and sales agencies, all of whom need information about the financing of the school district in making decisions concerning loans and sale of goods or services to the school district.

(d) Representatives of many different governmental agencies, such as the tax assessor's office, the State department of education, and the Federal Government, each of which needs specific kinds of financial information about a school district in order to carry out its responsibilities. These data are used by higher governmental units in making comparisons and evaluations, determining eligibility for financial aid programs, and providing source material for many research and statistical studies of value in the administration of education.

Besides being important to the people and groups mentioned above, systematic and well-kept records are invaluable to the person responsible for keeping the records. Systematic records summarize and bring into orderly arrangement the numerous and relatively unpredictable details of day-by-day operations. Information which is arranged in an orderly manner makes it possible to trace back individual items about financial transactions to their original sources, and summaries of certain types of information about how money is obtained and how it is spent may then be made on a regular basis. Additionally, an orderly system of records will provide a basis for quick access to special financial information when special unanticipated requests are made by the public, the school board, the superintendent, the business manager, the principal, or one of the governmental agencies.

Financial recordkeeping is commonly called bookkeeping. Bookkeeping is only one phase of accounting. Accounting has been defined as the art of recording, classifying, summarizing, reporting, and interpreting the results of the financial activities of an organization.

During the early years of American education, records were not extensive because school districts generally were small and had relatively few financial transactions. Today, school operation is a big business and involves the daily use of many types of records. The need for written records of the financial activity of a school district increases with the number of transactions, with the difficulty of the human mind to remember the details of each transaction, with the need for planning future activities based on past successes and failures, and with the increasing extent to which various community organizations and taxpayers wish to be informed about the cost of school operations.

School accounting is used to perform a number of services, the more important being to:

(a) Maintain an accurate record of all the details involved in school business transactions;

(b) Provide a system to insure that the resources of the school district will be safeguarded and used only for the benefit of the children of the district;

(c) Enable school administrators, school boards, and State departments of education to plan effectively;

(d) Facilitate an analysis of the school district's use of its money, with emphasis on the requirements and educational policies inherent in the budget;

(e) Enable the school district to report to various local, State, and national groups concerning the financial operations and status of the school district and also to compare its performance with other comparable districts.

A model school accounting system should adhere to most of the criteria used by a commercial enterprise in its accounting system. As a minimum, an adequate school accounting system should meet each of the criteria listed below:

(a) A school financial record system should be adequate to provide financial and related operational information for all interested parties—the school board; the administration; the public; auditors; local, State, and Federal authorities; and school employees. The adequacy of the accounting systems depends on whether both current and historical information is available for decision-making purposes.

(b) The accounting system should be designed to demand accuracy and a reasonable degree of internal control. If so designed, it will automatically assist those who are performing the daily work on the records as well as those who supervise them.

(c) A school accounting system should be consistent with generally accepted governmental accounting principles, and consistent as between one period of time and another. Valid comparisons of monthly or yearly operations in different time periods can be made only if the items are treated in the same way throughout. Changes and improvements in the accounting system may prove necessary, and these should be made at logical times in the accounting period.

(d) A school accounting system should be flexible. Change is inevitable. New programs will develop; old programs will be dropped. Provisions should be made for taking care of changes with as little disruption as possible.

(e) School financial accounting systems should be uniform; to permit maximum usefulness, they should allow for financial, operational, or performance comparisons with other school districts on local as well as State and national levels. Uniformity will insure that the items being compared are similar items, and standard terminology and definitions should be used. This is one of the primary reasons for the cooperative development of the handbook series published by the Office of Education of the U.S. Department of Health, Education, and Welfare.

(f) A financial accounting system should be as simple as possible and still fulfill the pertinent requirements. It is essential that the system not become merely frustrating "busy" work. A good accounting system will assist in improving the education processes, not hinder them.

(g) A school financial accounting system should provide ready access to information about individual financial transactions as well as summaries of information about groups of financial transactions. Unless the recordkeeping system is organized as indicated in the criteria above, it may be exceedingly difficult to gain ready access to information about the current and projected financial operations and status of the school district.

The principles of accounting apply to public school accounting, and it is a mistake to believe that public school accounting is something unique. There are, however, certain features of governmental and public school accounting which have been developed for sound reasons, but which have little or no counterpart in commercial practice. The principles and procedures dealt with and the illustrations used in this handbook are basic to any school financial accounting system regardless of size and regardless of the recording method used, whether manual, machine, or automatic data processing.

It is pointed out in Handbook II, *Financial Accounting for Local and State School Systems, Standard Receipt and Expenditure Accounts*,[1] that uniformity in accounting and standard terminology are the foundation for accurate recording, reporting, and interpretation of financial information. Basic items of financial information can be used profitably for all purposes only when they have the same meaning everywhere. Increasing the general foundation of knowledge of school financial accounting principles and procedures will bring about further improvement in many directions, for example:

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[1] Paul L. Reason and Alpheus L. White, *Financial Accounting for Local and State School Systems, Standard Receipt and Expenditure Accounts*, Washington, D.C.: U.S. Department of Health, Education, and Welfare, Office of Education, State Educational Records and Reports Series: (Handbook II, Bulletin 1957, No. 4) P. XVI, Introduction; U.S. Government Printing Office, 1957.

(a) The initial recording of financial data

(b) The accounting for school funds

(c) The school budget

(d) The establishment of a sound basis for educational cost accounting

(e) The accuracy of local, State, and national financial statistics

(f) The validity of comparisons of financial information among communities and among States

(g) The compilation of suitable information needed by local and State educational authorities in policy determination

(h) The accuracy of educational research

(i) The reliability of reporting to the public on the financial position, progress, and future plans of education.

CHAPTER II

Definitions and Principles of Accounting

Accounting is based on a body of principles which are put into action through procedures. Both the principles and the procedures contain terminology which is peculiar to accounting. In some cases the terms are peculiar to accounting; in other cases the terms as used have a specialized meaning.

In this chapter you will be introduced to all three—principles, procedures, and terminology of accounting. In later chapters you will find the procedures illustrated.

The accounting equation

As with one's own personal finances, it is essential that what is owned and what is owed be kept constantly in mind. Otherwise, one would soon find himself unable to pay his bills and unable to get further credit.

Financial accounting is based on the principle that *what one owns less what he owes equals his equity.* In equation form the principle is stated—

Owned—Owed=Equity

Assets are things of value owned.

Liabilities are debts owed.

Equity is the mathematical difference between *Assets* and *Liabilities*. Using this terminology, we may restate the equation:

Assets—Liabilities=Equity

To illustrate, assume that a school district has cash in the bank of $6,000 and owes $5,000. What is its equity? Since assets (what is owned) less liabilities (what is owed) equals equity—

Assets—Liabilities=Equity

$6,000—$5,000=$1,000

Try another one: Assume that the school district has $200,000 in bank, but it owes salaries to teachers in the amount of $175,000.

What is its equity? Since equity equals assets minus liabilities, then—

Equity=Assets−Liabilities
Equity=\$200,000−\$175,000
or
Equity=\$25,000
or
\$25,000=\$200,000−\$175,000
or
\$25,000=\$25,000

Assume, now, that we know the value of liabilities and equity. Can we determine the value of assets? In the preceding example, we state that Equity=Assets−Liabilities. Using the same amounts for equity and liabilities we would have—

Equity=Assets−Liabilities
\$25,000= ? −\$175,000
or

What less \$175,000 equals \$25,000?

\$200,000−\$175,000 equals \$25,000

Or, stated a different way—

Assets=Liabilities+Equity
\$200,000=\$175,000+\$25,000

We have now stated the accounting equation three ways:

(1) Assets−Liabilities=Equity
\$200,000−\$175,000=\$25,000

(2) Equity=Assets−Liabilities
\$25,000=\$200,000−\$175,000

(3) Assets=Liabilities+Equity
\$200,000=\$175,000+\$25,000

The accounting equation can be added to or subtracted from as long as the same amount is added or subtracted on both sides of the equation. It is important to remember that the equation must be in equality or balanced. Assume that a school district has assets of \$50,000, liabilities of \$22,000, and equity of \$28,000

\$50,000=\$22,000+\$28,000

then:

\$50,000=\$50,000

Now if \$10,000 is added to the asset side (the left side) of the equation, it is necessary to add \$10,000 to the liability+equity side (the right side) to balance the equation:

$$\$50{,}000+\$10{,}000=\$50{,}000+\$10{,}000$$
$$\$60{,}000=\$60{,}000$$

The same reaction is true when an equal amount is subtracted from both sides of the equation:

$$\$50{,}000-\$5{,}000=\$50{,}000-\$5{,}000$$
$$\$45{,}000=\$45{,}000$$

To relate these actions and reactions to the accounting equation—

(1) *An asset can be increased and another asset decreased an equal amount.* For example, a school district sells $5,000 of investments (asset) and receives cash (asset). The investment asset has been decreased but cash has been increased by the same amount. Hence, we still have the same total current assets.

Assets = Liabilities + Equity

$$(\$50{,}000-\$500)+\$500=\$22{,}000+\$28{,}000$$
$$\$50{,}000=\$50{,}000$$

(2) *An asset can be increased, and, on the other side of the equation, the liability would be increased an equal amount.* For example, $500 worth of mimeograph paper is received in the storeroom (an asset is increased), but it hasn't yet been paid for. The district now has an added $500 liability (it owes the paper salesman the $500), and the accounting equation looks like this:

Assets = Liabilities + Equity

Assets + paper = (liabilities + paper liability) + Equity

$$\$50{,}000+\$500=(\$22{,}000+\$500)+\$28{,}000$$
$$\$50{,}500=\$50{,}500$$

This shows the action of paper being acquired and the reaction of the new liability being created to keep the equation in balance.

(3) The third way to balance the equation is to *increase the equity in an amount equal to the asset increase.* For example, the school district receives $500 from another school district as a tuition payment.

Assets + Cash = Liabilities + (Equity + addition to Equity)

$$\$50{,}000+\$500=\$22{,}000+(\$28{,}000+\$500)$$

(4) The fourth possibility is to *increase one liability while decreasing another.* For example, the school district issues a 90-day note to the paper salesman (in example 2) to

satisfy the account payable.

Assets=Liabilities+Equity

Assets=(Liability−paper liability+ note payable)+Equity
$50,500=($22,500−$500+$500)+$28,000
$50,500=$22,500+$28,000
$50,500=$50,500

It is possible, in fact often necessary, to apply a combination of 1, 2, 3, or 4 above, to balance the equation (that is, to record the reaction to an action).

For example, assume that the district buys $500 worth of mimeograph paper, pays for half and charges the other half. The accounting equation should then look like this:

Assets=Liabilities+Equity
(Cash−partial payment)+paper=(Liabs.+additional liab.+equity)
($50,500−$250)+$500=($22,500+$250)+$28,000
$50,750=$50,750

Assets, liabilities, and equity defined

It is necessary now to explain more fully the terms Asset, Liability, and Equity.

Assets

In the language of accounting, *assets are things of value which a school district owns or controls.*

Assets are classified as either *current* or *fixed.*

> A *current asset* is cash or anything that can be readily converted into cash.

The following items are examples of current assets:

1. Cash;
2. U.S. Treasury notes or bonds held by the school district;
3. Supplies in a stockroom;
4. A check awaiting deposit in a bank;
5. A certificate of deposit from a bank (which is a written statement of a bank that a school district has money on deposit earning interest);
6. Accounts receivable such as money due the district from the State but not yet paid, property taxes due, tuition due.

A *fixed asset* is an item of value owned by the school district which is not likely to be sold for cash. The following items are examples of fixed assets:

1. Land;
2. Buildings;
3. Equipment.

Liabilities

In the language of accounting, *liabilities are any debts the school district owes.*

Liabilities are classified as either *current* or *long-term.*

A *current liability* is any debt which the school district expects to pay within a short period of time, usually a year or less. The following items are examples of current liabilities:

1. An invoice for textbooks purchased;
2. A bill payable to a vendor for food delivered to the cafeterias;
3. Two months' salary earned by a teacher where payment has been deferred until the summer;
4. Income tax withholdings from salaries of employees not yet paid to the Government;
5. A short-term note held by a bank for money borrowed by the school district.

A *long-term liability* is one which the school district is not likely to pay within a year. The most common and usually the only long-term liabilities of a school district are bonds issued for school construction, or site and large equipment purchases. A bond is a written promise to pay a definite sum of money at a fixed time in the future. Construction Fund and Fixed Assets accounting are discussed in chapters XI and XII, respectively. Only current assets and current liabilities will be considered in this and the next several chapters.

Equity or fund balance

It was mentioned earlier in this chapter that the mathematical excess of assets over liabilities is *Equity.* Actually, the term Equity is not normally used in school financial accounting. Instead *the excess of Assets over Liabilities is generally called Fund Balance.* Other terms for Fund Balance are in limited use but are not recommended. Hereafter, the term Fund Balance will be used instead of Equity.

With this fuller explanation of Current Assets, Current Liabilities, and Fund Balance, the accounting equation may be written as:

Assets = Liabilities + Fund Balance

Using a sample school district, the reader may calculate its Fund Balance.

At the beginning of the fiscal year, in July, there is an amount of $10,000 in the bank, the district has not received $25,000 due from the State (which is called an Account Receivable), and there is an amount of $15,000 temporarily invested in U.S. Treasury Notes. The district's Current Assets are then:

Cash in Bank	$10,000
State Appropriations Receivable	25,000
Investments, U.S. Treasury Notes	15,000
Total Current Assets	$50,000

At the same time, the school district owes $14,000 to the U.S. Treasury for income tax deductions withheld from the employees payroll in June, it owes the Hospitalization Insurance Company $3,000 for hospitalization insurance premiums deducted from the employees payroll in June, and it owes $5,000 to vendors for various supplies and materials.

Therefore, the liabilities are:

Federal Income Tax Withheld, Payable	$14,000
Insurance Premiums Withheld ,Payable	3,000
Accounts Payable To Vendors	5,000
Total Liabilities	$22,000

Using this information in the accounting equation:

Assets=Liabilities+Fund Balance

$50,000=$22,000+Fund Balance

or

Fund Balance=$50,000−$22,000=$28,000

Accounts

When a school district buys supplies, or pays teachers, or receives taxes, or conducts other business affecting the financial condition of the school district, it is transacting business. Such business deals are called *transactions.*

All transactions are recorded in a journal, and are posted from it to accounts. The journal is discussed on page 20.

An account looks like a "T." The left side of an account is called the debit side; the right side is called the credit side.

Debit side (left side)	Credit side (right side)

To accounts are posted not only the amounts of a transaction but also the date, a brief description, and the journal page number (ref.) on which the transaction was recorded. With these additions, an account looks like this—

Date	Description	Ref.	Debit	Date	Description	Ref.	Credit

Use of accounts

An account is established for each asset, for each liability, and for each fund balance account. To explain the relationship of debits and credits to assets, liabilities, and fund balance—

Assets

The value of an asset is recorded in the left (or debit) side of the account.

Increases in the amount of an asset also are recorded in the left (or debit) side of the account.

Decreases in the amount of an asset are recorded in the right (or credit) side of the account.

Liabilities

The amount of a liability and increases in the liability are recorded in the right (or credit) side of the account.

Decreases in the amount of liability are recorded in the left (or debit) side of the account.

Fund balance

The Fund Balance and increases in it are recorded in the right (or credit) side of the fund balance account.

Decreases in Fund Balance are recorded in the left (or debit) side of the account.

Following is a list of 10 transactions. Take a separate sheet of paper, list the numbers from 1 to 10 and indicate which accounts (asset, liability, fund balance) are to be debited and which are to be credited. When you have completed your list check the answers against those shown below.

1. Taxes are collected.
2. Teachers salaries are paid.
3. Investments are sold.
4. Money owed to the XYZ Company is paid.
5. Money is borrowed from the bank.
6. A telephone bill is paid.
7. Investments are purchased.
8. State-aid funds are received.
9. A 90-day note is issued to the FGH Company for the account payable owed it.
10. Custodians salaries are paid.

REMEMBER—

Assets		=	Liabilities		+	Fund Balance	
Debit Increase	Credit Decrease		Debit Decrease	Credit Increase		Debit Decrease	Credit Increase

Again—

A debit—increases an asset
decreases a liability
decreases fund balance

A credit—decreases an asset
increases a liability
increases fund balance

Your answers should be—

1. Debit Assets (Cash); credit Fund Balance.
2. Debit Fund Balance; credit Assets (Cash).
3. Debit Assets (Cash); credit Assets (Investments).
4. Debit Liabilities (Accounts Payable); credit Assets (Cash).
5. Debit Assets (Cash); credit Liabilities (Notes Payable).
6. Debit Fund Balance; credit Assets (Cash).
7. Debit Assets (Investments); credit Assets (Cash).
8. Debit Assets (Cash); credit Fund Balance.
9. Debit Liabilities (Accounts Payable); credit Liabilities (Notes Payable).
10. Debit Fund Balance; credit Assets (Cash).

To illustrate further the use of debit and credit, some examples are presented:

(1) The school district receives $50,000 in taxes:

Action: Cash is *increased,* so *debit Cash.* =Reaction: This *increases* the Fund Balance in the accounting equation, so *credit Fund Balance.*

Cash Account

(Debit)	(Credit)
$50,000	

Fund Balance Account

(Debit)	(Credit)
	$50,000

Note the action and the balancing reaction:

(2) The district buys $500 worth of mimeograph paper for cash and puts it in the storeroom.

Action: The asset Supplies is *increased,* so *debit Supplies.* =Reaction: The asset Cash is *decreased* because the paper was paid for, therefore, *credit Cash.*

Supply Account

(Debit)	(Credit)
$500	

Cash Account

(Debit)	(Credit)
	$500

Note the action and the balancing reaction.

(3) Instead of paying cash for the paper, the district buys it on credit. In other words, the district "charges" the paper just as many people do when they buy an article in a department store. Assume that $500 worth of paper has been bought. Note here that the word "credit" does not mean the side of the account, but rather refers to the generally accepted commercial use of the term of trusting a person to pay later for something he takes home from a vendor now.

Action: The asset Supplies is *increased*, so *debit Supplies*. =Reaction: A liability is *increased*, so *credit Accounts Payable To Vendors*.

Supply Account

(Debit)	(Credit)
$500	

Accounts Payable To Vendors (A Liability Account)

(Debit)	(Credit)
	$500

Note the action and the balancing reaction.

(4) Assume now that the school district pays the vendor for the $500 worth of paper which we "charged":

Action: The asset Cash is *decreased*, so *credit Cash*. =Reaction: The liability is *decreased*, so *debit Accounts Payable To Vendors*.

Cash Account

(Debit)	(Credit)
	$500

Accounts Payable To Vendor

(Debit)	(Credit)
$500	

Note the action and the balancing reaction.

In the preceding and above examples, there is a fact which may now be clear. It is:

(1) In each transaction, the amount of the debit equals the amount of the credit.

(2) In other words, there is an action and a self-balancing

reaction. This self-balancing feature is called double-entry bookkeeping and is one of the principles of good accounting.

The following is a series of simplified transactions which might take place in a typical school district. After reading and analyzing them, take a look at the next section which explains the correct handling of the transactions. As the reader reads these transactions, he should think about which accounts he would debit and credit.

(1) A check in the amount of $8,000 is received from the State department of education.

(2) The State department of education notifies the school district that the State owes the district $142,000.

(3) Textbooks and supplies in the amount of $3,500 are purchased on credit by the school district from the ABC Company.

(4) Taxes are collected for the school district this month and the district receives a check from the tax collector for $175,000.

(5) The teachers and other employees are paid $44,000 in salaries.

(6) The school district buys $80,000 worth of U.S. Treasury bills for a temporary investment.

(7) The school district pays $3,000 to the Hospitalization Insurance Company as premiums deducted from the employees' payroll.

Starting with the amounts already in the accounts (see p. 11), review the transactions and see what should have been done with each one:

(1) A check in the amount of $8,000 is received from the State department of education.

Debit Cash, $8,000; Credit State Appropriations Receivable, $8,000, because the Cash increased and the asset Accounts Receivable decreased.

Cash in Bank (Asset)

(the beginning amount)	$10, 000	
	(1)8, 000	

State Appropriations Receivable (Asset)

(the beginning amount)	$25, 000	
		(1)$8, 000

(2) The State department of education notifies the school district that the State owes the district $142,000.

Debit State Appropriations Receivable, $142,000; Credit Fund Balance, $142,000, because the asset State Appropriations Receivable increased and increased the equity, the Fund Balance.

	State Appropriations Receivable (Asset)	
	$25, 000	$8, 000
	(2)142, 000	

	Fund Balance	
(the beginning amount)		$28, 000
		(2)142, 000

(3) Textbooks and supplies in the amount of $3,500 are purchased on credit by the school district from the ABC Company.

Debit Supplies, $3,500; Credit Accounts Payable to Vendors, $3,500, because an asset increased and a liability increased.

	Supplies (Asset)	
(no beginning amount)	(3)$3, 500	

	Accounts Payable To Vendors (Liability)	
(the beginning amount)		$5, 000
		(3)3, 500

(4) Taxes are collected for the school district this month and the district receives a check from the tax collector for $175,000.

Debit Cash, $175,000; Credit Fund Balance, $175,000, because an asset increased and increased the equity, the Fund Balance.

Cash in Bank (Asset)	
$10, 000	
8, 000	
(4)175, 000	

Fund Balance	
	$28, 000
	142, 000
	(4)175, 000

(5) The teachers and other employees are paid $44,000 in salaries.

Debit Fund Balance $44,000, because the equity, Fund Balance, has been reduced. Credit Cash, $44,000, to reduce the asset.

Fund Balance	
	$28, 000
	142, 000
	175, 000
(5)$44, 000	

Cash in Bank (Asset)	
$10, 000	
8, 000	
175, 000	
	(5)$44, 000

(6) The school district buys $80,000 worth of U.S. Treasury bills for temporary investment.

Debit Investments, $80,000; Credit Cash, $80,000, because the asset, Investments, has increased and the asset, Cash, has decreased.

	Investments (Asset)	
(the beginning amount)	$15, 000	
	(6)80, 000	

Cash (Asset)	
$10, 000	
8, 000	
175, 000	
	$44, 000
	(6)80, 000

(7) The school district pays $3,000 to the Hospitalization Insurance Company as premiums deducted from the employees' payroll.

Debit Insurance Premiums Withheld, $3,000; Credit Cash, $3,000, because the liability, the accounts payable to the Hospitalization Insurance Co., has decreased, and the asset, Cash, has decreased.

	Insurance Premiums Withheld, Payable (Liability)	
(the beginning amount)		$3, 000
	(7)$3, 000	

Cash in Bank (Asset)	
$10, 000	
8, 000	
175, 000	
	$44, 000
	80, 000
	(7)3, 000

Obtaining the account balances:

After all transactions have been posted, the accuracy of the postings should be checked. To do this, the balance in each account must be determined. The account balance is the difference between the entries on the debit side (left side) and the credit side (right side) of an account. If all the entries are on one side, the total of those entries is the account balance. If an account has only one entry, this single amount is the account balance. For example, the account balance of the Investments Account is $95,000. It is a debit balance because it is on the debit side of the account.

Using the Cash Account as an illustration, the small figures directly under the last entry posted (7) is the total for the entries:

Cash

(Debit)	(Credit)
$10, 000	$44, 000
8, 000	80, 000
175, 000	(7)3, 000
193, 000	127,000

Pencil Footings

These small figures, written in pencil so that they may be erased are called pencil footings. They are written in small figures so that they will not be mistaken for an entry in the account and to avoid wasting a full line in a normal bookkeeping ledger. The difference is obtained by subtracting, and the balance is also written in small pencil figures in the Explanation column as shown in the full illustration below of our Cash account. Since there is a debit balance, the balance figure is written on the debit side of the account. If there is a credit balance, it is written on the credit side.

CASH **Account No. 1**

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
July 1	Previous balance	1	10 000 --	July 2	Payroll	1	44 000 --
July 6	State Approp.	1	8 000 --	July 7	Treasury bills	1	80 000 --
July 7	Taxes received	1	175,000 --	July 9	Hosp. Ins. Co.	1	3,000 --
	66,000		193,000				127,000
	Account balance						

Normally the kind of account will indicate its balance. Asset accounts have debit balances. Liability accounts have credit balances. Fund balance accounts have credit balances.

The accounts for the seven previous transactions have the following balances:

Cash in bank	$66, 000	debit balance.
Investments	95, 000	debit balance.
State Appropriations Receivable	159, 000	debit balance.
Supplies	3, 500	debit balance.
Accounts Payable to Vendors	8, 500	credit balance.
Federal Income Tax Withheld, Payable	14, 000	credit balance (from our first example).
Accounts Payable, Hosp. Ins. Co	0	No balance.
Fund Balance	301, 000	credit balance.

The trial balance

If posting to the accounts has been accurate, the total of all the debit balances should equal the total of the credit balances. *This is true because for every debit entry there has been a credit entry or entries of an equal amount.*

The next step is to prepare a trial balance, which would look like this:

XYZ SCHOOL DISTRICT
TRIAL BALANCE, JULY 31, 1964

		Account titles	Debit	Credit
		Cash in Bank	66 000 --	
		Investments	95 000 --	
		State Appropriations Receivable	159 000 --	
		Supplies	3 500 --	
		Federal income tax withheld, payable		14 000 --
		Accounts payable to vendors		8 500 --
		Insurance premiums withheld, payable		0 --
		Fund balance		301 000 --
			323 500 --	323 500 --

The reader will note that the debits and the credits are equal in the trial balance. A trial balance is necessary because errors can creep into the work. For example, errors may occur while posting transactions to the ledger accounts. Numbers can be transposed such as the accidental posting of a debit as $48 and the related credit as $84. For further information on finding errors see chapter 5, page 110.

The journal

As transactions occur they are recorded first in a journal. The recording is called a journal entry and contains a summary of the transaction—the date on which the transaction took place, accounts affected, how they are affected (whether debited or credited), the amounts to be debited or credited, and a brief description of the transaction.

Assume that at the beginning of the fiscal year (July 1) a school district has cash of $10,000, liabilities of $500, and a fund balance of $9,500. On September 1, it pays the creditor the full amount owed him. What should be recorded in the journal entry?

Date of the transaction—September 1, 19__.
Accounts affected—Cash (Asset)—to be decreased (a credit)
Account Payable (Liability) to be decreased (a debit)

Amount to be debited----- $500. 00
Amount to be credited---- 500. 00

Brief description of entry—to record payment in full to RST Company.

The actual entry in journal form is shown below. Note that the account to be debited is listed first and the account to be credited is indented—this is an accepted practice. The form used is the standard form for the General Journal.

GENERAL JOURNAL

Page 1

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
19xx				
Sept. 1	Accounts Payable	60	500 00	
	Cash	10		500 00
	To record payment in full to RST			
	Company			

After the transaction has been entered in the journal it is transferred to the proper accounts. The column, above, "POST REF." is used to record the account numbers of the accounts to which the debit and credit entries have been transferred.

On the following page the journal entry above is posted to the proper accounts. For the purpose of this illustration, we have assumed that at the end of the preceding year there was a cash balance of $1,000 and that $500 was owed the RST Company.

10. CASH

DATE	EXPLANATION	REF	DEBIT AMOUNT	DATE	EXPLANATION	REF	CREDIT AMOUNT
19xx				19xx			
Jul 1	Bal carried fwd		1 000 00	Sept 1	a/Pay. RST Co.	J-1	500 00

60. ACCOUNTS PAYABLE

DATE	EXPLANATION	REF	DEBIT AMOUNT	DATE	EXPLANATION	REF	CREDIT AMOUNT
19xx				19xx			
Sept 1	A/Pay-RST Co.	J-1	500 00	Jul 1	Bal. brot fwd.		500 00

The general ledger

All the asset, liability, and fund balance accounts, together, make up what is called the General Ledger.

Revenue and expenditures

If a school district receives tax monies of $1,000 it increases assets (Cash) by $1,000; no other asset is decreased; no liability is increased; therefore, the fund balance (the excess of assets over liabilities) is increased by $1,000.

If a school district pays rent of $2,000, it decreases assets (Cash) by $2,000; no other asset is increased; no liability is decreased; therefore, the fund balance is decreased by $2,000.

Increases in assets or decreases in liabilities which result in an increase in fund balance are called revenue. Examples of revenue are: receipts from taxes, tuition, State aid, and Federal aid.

Decreases in assets or increases in liabilities which result in a decrease in fund balance are called expenditures. Examples of expenditures are: salaries, supplies, contracted services, utility costs, and the like.

Definition of revenue

Revenues are defined by the National Committee on Governmental Accounting as "additions to assets which do not increase any liability nor represent the recovery of an expenditure, and the cancellation of liabilities without a corresponding increase in other liabilities or a decrease in assets." Again, stated in simpler terms, revenues are increases in assets or decreases in liabilities which increase the amount of the fund balance.

As an example, take the previous equation:

Current Assets=Current Liabilities+Fund Balance
$50, 000=$22, 000 +$28, 000

Now assume that the school district is to receive revenue in the form of property taxes of $20,000. The effect of this revenue on the accounting equation is:

Current Assets=	Current Liabilities+	Fund Balance+	Revenue
$50, 000=	$22, 000	+$28, 000	
+20, 000=			+$20, 000
$70, 000=	$22, 000	+$28, 000	+$20, 000

Note here that the equation is in balance because for every action there is a reaction.

The action of revenue increasing is balanced by the reaction of the asset increasing by the same amount.

Definition of expenditures

Expenditures are defined by the National Committee on Governmental Accounting as "charges incurred, whether paid or unpaid, including expenses, provision for retirement of debt . . ., and capital outlays." Again, stated in simpler terms, expenditures are decreases in assets or increases in liabilities which decrease the amount of the fund balance.

To illustrate, assume that a payroll of $3,000 is paid. The assets are decreased by $3,000 when cash is paid and the expenses are increased by $3,000. The effect of this expense on the accounting equation is:

Current Assets =	Current Liabilities	+ Fund Balance	+ Revenue	− Expenses
$50,000 =	$22,000	+$28,000		
20,000 =			+$20,000	
−3,000 =				−$3,000
$67,000 =	$22,000	+$28,000	+$20,000	−$3,000
$67,000 =	$70,000	−$3,000		
$67,000 =	$67,000			

Note again that the equation is in balance.

The reader should be particularly aware at this point that the status of a school district's accounts will be constantly changing.

As revenue is received, and as expenses are incurred or paid, they affect the available fund balance.

Funds

Heretofore we have used the term "Fund Balance" without defining "Fund."

To the nonaccountant the word "funds" suggests money or monies; accountants also use the term with that meaning. There is, however, another meaning of "funds." Up to this point we have dealt with Assets, Liabilities, and Fund Balance as though they were part of one group of accounts or one ledger. Actually, a school district may, in effect, run several businesses, each with its own assets, liabilities, and fund balance. For example, the primary business of the school district is to operate schools for the education of children. It also may operate cafeterias to feed schoolchildren. Or, it may construct buildings in which to educate children.

The assets, liabilities, and fund balance of each of a school district's "businesses" constitute a "Fund." Stated another way, *a fund is an independent accounting entity with its own assets, liabilities, and fund balance.* Thus a school district may have a General (or Operating) Fund, a Cafeteria Fund, a Construction Fund, and possibly others (depending on its need for "Funds").

The general fund

In the next several chapters we will be dealing with the General

Fund. The General Fund is used to finance the ordinary operations of the school district. In the accounting records of the General Fund are recorded taxes collected, State and Federal aid, tuition and other receipts relating to the operation of schools, and such payments as teachers' salaries, supplies used in the classroom, and utility costs.

Summary

(1) What a school district owns are called **Assets.**

(2) What a school district owes are called **Liabilities.**

(3) The excess of **Assets Over Liabilities** is called **Fund Balance.**

(4) **Debits** are entries to the left side of an account or accounts.

(5) **Credits** are entries to the right side of an account or accounts.

(6) Assets have debit balances; therefore—
Debits Increase Assets
Credits Decrease Assets

(7) Liabilities and Fund Balances have credit balances; therefore—
Debits Decrease Liabilities and Fund Balances
Credits Increase Liabilities and Fund Balances

(8) Increases in assets or decreases in liabilities which result in an increase in fund balance are called **Revenue.**

(9) Decreases in assets or increases in liabilities which result in a decrease in fund balance are called **Expenditures.**

(10) Transactions are recorded in a **Journal.**

(11) From the journal, transactions are posted to **Accounts.**

(12) A group of accounts is called a **Ledger.**

(13) A **Trial Balance** is a listing of account titles and account balances for the purpose of determining whether accounts are in balance—whether the total of all debit account balances equals the total of all credit account balances.

(14) A **Fund** is a group of resources and related accounts which pertain to a specific activity of the school district.

(15) Through the use of the accounting equation, transactions are summarized and recorded in balanced journal entries and from the journal are posted to the proper accounts.

CHAPTER III

Opening the General Ledger

Recording assets, liabilities, and fund balance

A sample set of financial books is presented in this chapter. The normal entries or postings to the various accounts for one month's transactions are also illustrated.

If the books have not been opened, the person responsible for maintaining the financial records should progress through a series of steps in opening them. Then he may begin to post the transactions as they occur. In summary, these steps are to:

(1) Determine the accounts needed.

(2) Establish a chart of accounts.

(3) Determine asset, liability, and fund balance values. These amounts can usually be obtained from the superintendent's office.

(4) Record the beginning asset, liability, and fund balance values in the *General Journal;* this is called the Opening General Journal Entry, and is the next step in opening the *General Ledger.*

(5) Post the opening entry from the *General Journal* to the *General Ledger.*

To review:

The *Journal* is the book in which transactions are first recorded; entries are made in the journal, listing the accounts affected and showing in the separate columns the amounts to be posted later to the accounts of the General Ledger as debits or credits.

A Ledger is a group of accounts. The General Ledger contains the basic group of accounts.

A *Chart of Accounts* is a listing of all accounts used in an individual accounting system. Each account is assigned a number, and is arranged in the ledger with similar accounts such as assets and liabilities.

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Below, a simple chart of General Ledger accounts is illustrated for the sample school district. We start with this chart of accounts so that the financial records can show what the district has and what it owes. As indicated in chapter II, fixed assets and long-term liabilities are not accounted for in the General Fund but are part of General Fixed Assets (chapter XII) and Debt Service (chapter X); therefore, they are not provided for in the chart of accounts.

The number of accounts has been kept small to illustrate principles and procedures, but the reader can understand that additional or different accounts may be necessary, depending on the State's laws and the needs of the particular school district. Brief explanations on the use of the accounts and, in some cases, comments on the significance of the debit and credit balance of such accounts are included. Remember, assets are what the district owns, liabilities are what the district owes, and fund balance is the difference between the two.

	Account No.	**Normal Balance**
CURRENT ASSETS (what the district owns):		
Cash	1501	Debit.
Petty Cash	1510	Debit.
Prepaid Expenses	1530	Debit.
Accounts Receivable	1540	Debit.
Investments	1550	Debit.
CURRENT LIABILITIES (what the district owes):		
Salaries Payable	1605	Credit.
Accounts Payable:		
To Vendors	1610	Credit.
For Payroll Deductions	1620	Credit.
EQUITY (the difference between what the district owns and owes):		
Fund Balance	2010	Credit.
Reserve for Encumbrance (Summary)	2011	Credit.
ESTIMATED REVENUE (SUMMARY)	2020	Debit.
REVENUE (SUMMARY)	2030	Credit.
APPROPRIATIONS (SUMMARY)	2040	Credit.
EXPENDITURE (SUMMARY)	2050	Debit.
ENCUMBRANCES (SUMMARY)	2060	Debit.

This chart is for illustrative purposes only. Various needs and State laws may require many more or different accounts.

Use of account numbers

Account numbers have a definite use. As purchase orders and invoices are received, the account to which they are to be posted must be indicated on them. To avoid writing on each of them the long account title to which they will be posted (through a journal entry) the employee should use an account number. After posting from the journal to the ledger, he enters the account number in the "Reference" column.

These accounts fall in two broad categories—*Proprietary Accounts* and *Budgetary Accounts*. Proprietary Accounts are those accounts which reflect assets, liabilities, fund balance, revenues, and expenditures. Budgetary Accounts are those accounts which reflect budget operation and condition, for example, estimated revenue, appropriations, and encumbrances.

The last five accounts listed, 2020, 2030, 2040, 2050, and 2060 are summary or control accounts. This simply means that their balances represent the summary of the balances of a breakdown of accounts in a separate or *subsidiary ledger*. For example, revenue which is received from the Federal Government, the State, and the local government is all posted in total to the Revenue summary account. However, it is also necessary to keep a record of revenue from each individual source—Federal, State, and local. Therefore, a subsidiary ledger is maintained which contains an account for each source of revenue in order to provide the detailed record needed; it is called the *Revenue Subsidiary Ledger*. At all times the amount in the General Ledger Revenue account should be the same as the total of amounts in the Revenue Subsidiary Ledger. When posting an item or items for which there is a summary account, one should post the total to the summary account and then post the individual amount(s) to the proper accounts in the subsidiary ledger.

The Revenue summary account is used as a sample; however, the same principle applies to any summary account. Any subsidiary ledger should, like the Revenue Subsidiary Ledger above, be summarized in a single account in the General Ledger. This is illustrated below using "T" accounts.

Transactions

Revenue received: In each transaction, cash is debited and Revenue summary is credited; the detail is posted to individual subsidiary revenue ledger accounts as shown below.

1. Federal Sources	$20, 000
2. State Sources	30, 000
3. Local Sources	80, 000

General Ledger

Revenue (Summary)

	(1)$20, 000
	(2) 30, 000
	(3) 80, 000

Cash

(1)$20, 000	
(2) 30, 000	
(3) 80, 000	

Revenue Subsidiary Ledger

Revenue from Local Sources

	(3)$80, 000

Revenue from State Sources

	(2)$30, 000

Revenue from Federal Sources

	(1)$20, 000

Definitions of terms in chart of accounts

CURRENT ASSETS (A debit entry increases an asset account; a credit entry decreases an asset account)

1501 Cash

Cash includes all bank deposits, currency, checks, postal or express money orders, and banker's drafts on hand or on deposit with an official or agent designated as custodian of cash for the school district.

1510 Petty Cash

A sum of money, either in the form of currency or a special bank deposit, set aside for the purpose of making change or immediate payments of comparatively small amounts.

1530 Prepaid Expenses

Prepaid expenses are those portions of insurance premiums, rent, and other expense paid during a given fiscal year for services not yet received, that is, for benefits extending to the end of the year or even to succeeding years. For example, if a school district purchases a three-year fire insurance policy on all of its buildings, it has paid its insurance for the current year and prepaid insurance for two additional years. That portion of the premium relating to the current year should be charged to expenditures; and the balance relating to subsequent years should be carried as Prepaid Expenses (an asset). Prepaid expenses of subsequent years should be charged to expenditures promptly at the beginning of each year.

1540 Accounts Receivable

In this account are recorded the amounts collectible by the school district from individuals, firms, governmental units and others.

1550 Investments

Investments are defined as any securities or other property in which money is put to earn interest either temporarily or permanently. The investments most commonly used by school districts are United States Treasury bills or bonds.

CURRENT LIABILITIES (A credit entry increases a liability account; a debit entry decreases a liability account)

1605 Salaries Payable

Salaries payable are salaries earned but not paid.

1610 Accounts Payable to Vendors

Unpaid balances or invoices against a school district which are due and owing to individuals, firms, or others, excluding deductions payable such as Federal income tax, social security taxes, and retirement contributions, all of which are withheld from the employee's payroll.

1620 Accounts Payable for Payroll Deductions

In this account is recorded any payroll deduction which is payable to various governmental units or which is for items withheld from employee's payroll such as income taxes, social security, and retirement.

EQUITY (A credit entry increases an equity or fund balance account; a a debit entry decreases an equity or fund balance account)

2010 Fund Balance

That portion of a given fund which is not segregated for specific purposes and which represents the difference between current assets and current liabilities.

2011 Reserve for Encumbrances

This is a summary reserve account in the General Ledger representing a segregation of fund balance to provide for unliquidated encumbrances.

REVENUE AND EXPENDITURE SUMMARY ACCOUNTS

2020 Estimated Revenue Summary

(A debit entry increases an Estimated Revenue Summary account; a credit entry decreases an Estimated Revenue Summary account)

This is the General Ledger summary account representing the summary of all revenue estimated to accrue during the current fiscal year.

2030 Revenue Summary

(A credit entry increases a Revenue Summary account and a debit entry decreases a Revenue Summary account)

This is the General Ledger summary account representing the summary of all revenue received, that is, additions to assets which do not increase any liability nor represent the recovery of an expenditure, and the cancellation of liabilities without a corresponding increase in other liabilities or a decrease in assets.

2040 Appropriations Summary

(A credit entry increases an Appropriations Summary account and a debit entry decreases an Appropriations Summary account)

This is the General Ledger summary account reflecting the total authorization granted by the board to make expenditures and to incur obligations for specific amounts and purposes during the current fiscal period.

2050 Expenditure Summary

(A debit entry increases an Expenditure Summary account and a credit entry decreases an Expenditure Summary account)

This is the General Ledger summary account representing the summary of all expenditures, that is, charges incurred, whether paid or unpaid, for operation, maintenance, interest, debt retirement, capital outlay, and other charges which are presumed to benefit the current fiscal period.

2060 Encumbrances

(A debit entry increases an Encumbrance Summary account and a credit entry decreases an Encumbrance Summary account)

This is the General Ledger summary account representing the summary of all encumbrances, that is, commitments in the form of purchase orders, contracts, or salary contracts which are chargeable to an appropriation and for which a part of the appropriation is reserved.

Opening The Books Of Account

In the presentation of the sample school district financial records, it is assumed that the General Ledger has not been opened for this current school year. The opening of the General Ledger is necessary to record in the books the amounts of the assets that the district owns, what the district owes, and as stated before, the difference between what it owns and owes, the fund balance. Once these amounts have been entered in the records, recording of the routine transactions of the school district may be started—for example, buying supplies, materials, and textbooks; paying salaries to teachers and other employees; and reporting these activities to the proper authorities. Since a minimum chart of accounts has now been established, all accounts with balances (entries) should be listed before making the opening General Journal entry.

At the beginning of the fiscal year, in July, the current assets for our hypothetical school district are:

Current Assets:

Cash	$69, 445. 55
Investments	24, 847. 20
Petty Cash	400. 00
Prepaid Expenses	3, 000. 00
Accounts Receivable	3, 652. 15
Total Current Assets	$101, 344. 90

The current liabilities (what the district owes) for our school district are:

Current Liabilities:

Salaries Payable	$56, 900. 00
Accounts Payable:	
To Vendors	3, 673. 25
For Payroll Deductions	6, 361. 50
Total Current Liabilities	$66, 934. 75

The total current liabilities are subtracted from the total current assets and the difference is called the fund balance, for example:

Total Current Assets (what it owns)	$101, 344. 90
Less: Total Current Liabilities (what is owed)	66, 934. 75
Fund Balance	$34, 410. 15

The amount of salaries payable, $56,900, as defined on page 29, is for salaries earned by teachers during fiscal year 1966. Most of the teachers in a school district work only during the academic year—September to June. A common arrangement is to spread their salary over 12 months to provide a continuity of paychecks. However, since only 10 months have elapsed by the end of the academic year, it is necessary to pay these teachers for two more months. Therefore, at the end of the fiscal year, the remaining two months' salary for such employees is charged to expenditures and Salaries Payable is established.

Preparing the opening general journal entry

The information on current assets and current liabilities may now be used to prepare an opening journal entry. An entry is the recording of a transaction in a journal. The making of the debit and credit parts of an entry is called journalizing and is done in chronological order. The definition of General Journal (p. 20) indicates that the amounts listed in the journal columns will later be posted to the accounts of the General Ledger. At this point it may not be clear why the ledger isn't posted directly from the list of assets and liabilities. The General Journal serves as a permanent record of the complete transaction, for both the debit and the credit parts. Again, the journal entry is a balanced summary of the transaction and is the only complete record of the transaction.

The opening General Journal entry follows:

GENERAL JOURNAL

Page 1

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 1	Cash	1501	69,445	55		
	Petty Cash	1510	400	00		
	Prepaid Expense	1530	3,000	00		
	Accounts Receivable	1540	3,652	15		
	Investments	1550	24,847	20		
	Salaries Payable	1605			56,900	00
	Accounts Payable to Vendors	1610			3,673	25
	Payroll Deductions Payable	1620			6,361	50
	Fund Balance	2010			34,410	15
	To record current assets, current					
	liabilities, and fund balance as					
	of July 1, 1966.					

Several things in the General Journal entry, above, should be noted:

First, the date is shown in the Date column.

Second, note the position of the entry on the form. The Debit accounts and amounts are placed on the left and the Credit accounts and amounts on the right. This is a standard practice.

Third, all of the accounts affected are included in the entry.

Fourth, the total of the Debit amounts equals the total of the Credit amounts. This should be true of any journal entry. As is pointed out in the previous chapter, in every transaction, there is an action and an equal reaction.

Fifth, a brief description of the transaction or purpose of the entry is given.

Finally, please understand that if you were to begin work for a school district at some time other than the beginning of the fiscal year these entries should already have been made in the financial records. However, you should prepare a trial balance (a list of the debit balances and the credit balances) to make certain the accounts are in balance.

Posting the general ledger

General Journal entries are posted to General Ledger accounts. The amount shown for an account in the journal entry is posted to that account in the General Ledger, as a debit if the amount appears in the debit column or as a credit if the amount appears in the credit column.

The first account listed in the entry is Cash. The posting would be as follows:

GENERAL LEDGER

Page 1

Account Cash

Account # 1501

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beginning Balance	J1	69,445	55						

Note that the entry is posted in the Debit column. As each entry is posted to the proper ledger account, the date of the entry is recorded in the "Date" column, the source of the entry is recorded in the "Ref." column (in this case the source is the first page of the General Journal, thus the abbreviation "J1"). In all ledger accounts the same rule applies—the source for the entry is indicated in the Reference column. Since ledger accounts are always posted from journals, the Reference will always be a certain page in a journal.

After the posting of an entry has been completed, it is helpful to have some way of indicating this step in the journal. This is accomplished by entering the number of the account to which posted in the Reference column of the journal. Note that 1501 is entered on the first line in the Reference column of page 1 of the General Journal on page 32. This means that $69,445.55 has been posted as a debit to the Cash account, account number 1501. This, then, serves two purposes—(1) to indicate that posting has been completed; and (2) to indicate the account to which the entry was posted.

Each line of the opening entry in the General Journal is similarly posted, until the entire entry has been posted to the General Ledger. The opening of the General Ledger is then complete. In this illustration there is a total of nine General Ledger accounts; postings to the other eight accounts are shown here and on the next several pages.

GENERAL LEDGER

Page 1

Account Petty Cash

Account # 1510

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beg. Balance	J1	400	00						

GENERAL LEDGER

Page 1

Account Prepaid Expense　　Account # 1530

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1966 July 1	Beg. Balance	J1	3,000 00				

GENERAL LEDGER

Page 1

Account Accounts Receivable　　Account # 1540

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1966 July 1	Beg. Balance	J1	3,652 15				

GENERAL LEDGER

Page 1

Account Investments　　Account # 1550

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1966 July 1	Beg. Balance	J1	24,847 20				

GENERAL LEDGER

Page 1

Account Salaries Payable　　Account # 1605

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1966 July 1	Beg. Balance	J1	56,900 00

GENERAL LEDGER

Page 1

Account Accounts Payable - Vendors　　Account # 1610

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1966 July 1	Beg. Balance	J1	3,67[illegible] 25

GENERAL LEDGER

Page 1

Account Payroll Deductions Payable

Account # 1620

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1966 July 1	Beg. Balance	J1	6,361 50

GENERAL LEDGER

Page 1

Account Fund Balance

Account # 2010

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1966 July 1	Beg. Balance	J1	34,410 15

A graphic illustration of the journal entry and its subsequent posting to the ledger accounts is shown on the following page.

Summary

(1) A listing of all accounts used in an individual accounting system is a **Chart of Accounts.**

(2) An account that is used to consolidate items of a broad category in one place is called a **Summary Account.** For example, all revenue, regardless of source, is entered in the Revenue Summary account.

(3) A group of accounts, each of which is used for recording specific items belonging to a broader general category, is called a **Subsidiary Ledger.** For example, each account in the Revenue Subsidiary Ledger is used to record some type of revenue.

(4) An **Entry** is the completed recording of a transaction in a journal.

(5) **Journalizing** is the process of making the debit and credit parts of an entry.

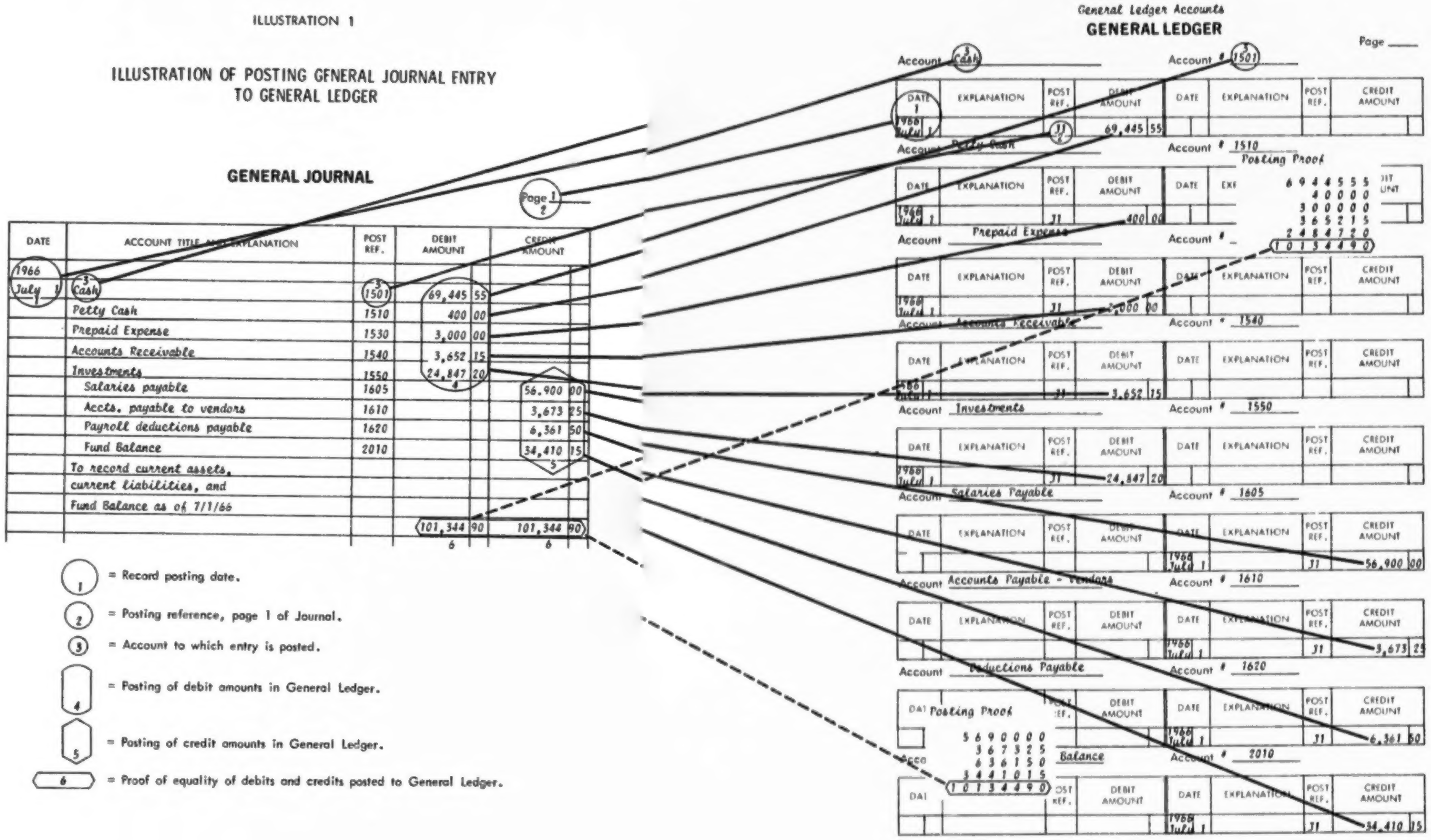
(6) In every **Journal Entry,** the total of the debit entry or entries must equal the total of the credit entry or entries.

(7) The **General Ledger** is posted from the **General Journal.**

(8) **Salaries Payable** are salaries earned by teachers during the current fiscal year. Payment is withheld and made during the following fiscal year so that teachers might receive pay over 12 months.

ILLUSTRATION 1

ILLUSTRATION OF POSTING GENERAL JOURNAL ENTRY TO GENERAL LEDGER


GENERAL JOURNAL
Page 1
2
1
3
3
4
5
6
6
General Ledger Accounts
GENERAL LEDGER
Page ____
Account Cash — Account # 1501 — 1966 July 1 — 31 — 69,445 55
Account Petty Cash — Account # 1510 — 1966 July 1 — 31 — 400 00
Account Prepaid Expense — Account # — 1966 July 1 — 31 — 3,000 00
Account Accounts Receivable — Account # 1540 — 1966 July 1 — 31 — 3,652 15
Account Investments — Account # 1550 — 1966 July 1 — 31 — 24,847 20
Account Salaries Payable — Account # 1605 — 1966 July 1 — 31 — 56,900 00
Account Accounts Payable - Vendors — Account # 1610 — 1966 July 1 — 31 — 3,673 25
Account Deductions Payable — Account # 1620 — 1966 July 1 — 31 — 6,361 50
Account Balance — Account # 2010 — 1966 July 1 — 31 — 34,410 15
DATE
EXPLANATION
POST REF.
DEBIT AMOUNT
CREDIT AMOUNT
Posting Proof
6 9 4 4 5 5 5
4 0 0 0 0
3 0 0 0 0 0
3 6 5 2 1 5
2 4 8 4 7 2 0
1 0 1 3 4 4 9 0
Posting Proof
5 6 9 0 0 0 0
3 6 7 3 2 5
6 3 6 1 5 0
3 4 4 1 0 1 5
1 0 1 3 4 4 9 0

GENERAL JOURNAL

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966				
July 1	Cash	1501	69,445 55	
	Petty Cash	1510	400 00	
	Prepaid Expense	1530	3,000 00	
	Accounts Receivable	1540	3,652 15	
	Investments	1550	24,847 20	
	Salaries payable	1605		56.900 00
	Accts. payable to vendors	1610		3,673 25
	Payroll deductions payable	1620		6,361 50
	Fund Balance	2010		34,410 15
	To record current assets,			
	current liabilities, and			
	Fund Balance as of 7/1/66			
			101,344 90	101,344 90

1 = Record posting date.

2 = Posting reference, page 1 of Journal.

3 = Account to which entry is posted.

4 = Posting of debit amounts in General Ledger.

5 = Posting of credit amounts in General Ledger.

6 = Proof of equality of debits and credits posted to General Ledger.

CHAPTER IV

Recording the Approved Budget

The estimated revenue budget

The recording of the opening entries in the General Journal and the posting of the amounts to the accounts of the General Ledger is the first step in opening the records. This chapter takes the next step in the sequence—recording and posting the approved budget.

A school budget is an official statement of the anticipated revenues and expenditures of the school district for a definite period. Through the budget, the board of education, the school administration, and the people of the community reach agreement on the financing of the educational program. In other words, the annual budget is the educational plan of a school district for a school year expressed in dollars.

The entry for recording the approved budget is made in the journal and is posted to accounts of the General Ledger in the same manner as the journal entry which originally opened the books (illustrated in chapter III). Our hypothetical district keeps its books on a fiscal year basis.

The fiscal year most often used begins July 1 and ends the following June 30. A budget is prepared for each fund for a specific fiscal year.

In this chapter the concern is the budget for the General Fund—the fund which finances the ordinary operation of the school district.

The approved estimated revenues in the annual budget for our hypothetical school district are seen below. The account descriptions and numbers for revenue are taken from Handbook II, *Financial Accounting for Local and State School Systems.*[1] However, revenue accounts in use vary among States. For a more complete list see the accounting manual issued by your State department of education.

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[1] Reason and White, p. 6.

Hypothetical School District
Xville, U.S.A.

Annual Budget—Fiscal Year 1967
General Fund

Estimated Revenue	
10. Revenue From Local Sources	
11. Taxation and Appropriations Received	$353, 270
14. Other Revenue From Local Sources	300
20. Revenue From Intermediate Sources	220
30. Revenue From State Sources	253, 380
40. Revenue From Federal Sources	2, 000
80. Amounts Received From Other School Districts in the State	1, 350
Total Estimated Revenue	$610, 520
Plus anticipated Fund Balance as of the end of the current fiscal year	29, 410
Total Estimated Amount Available	$639, 930

Please note that the Total Estimated Amount Available, $639,930, includes the anticipated Fund Balance, $29,410, as of the end of the current fiscal year. When the fiscal year starts on July 1, which is the fiscal year used here, budgets are normally prepared in the spring for the following fiscal year. Since budget figures are based on estimates, the amounts are usually kept in whole dollars. Please note that the actual fund balance as of July 1, $34,410.15, is $5,000.15 more than the amount estimated at the time the budget was prepared.

Each of the items of estimated revenue should be accounted for in a separate account so that excess revenue or revenue shortages may be readily identified by source as the school year progresses. This is accomplished by the use of the subsidiary Revenue Ledger. Remember that every subsidiary ledger is summarized in an account in the general ledger.

The original entry for the approved estimated revenue budget may be subject to adjustment later if revenue estimates change. Sample adjustments of this type are shown in a later chapter of this handbook.

Recording the estimated revenue budget

The General Journal entry recording the estimated revenues lists the General Ledger accounts and the subsidiary Revenue Ledger accounts and the amounts for each. The entry can be made as shown on the following page.

Several things should be noted about this journal entry. First, this is a General Journal entry, just like the one used to open the books for the first time as shown in chapter III. This entry, however, also carries the detailed information for posting in the accounts of the subsidiary Revenue Ledger.

Second, note the arrangement of the journal entry. The entries for the controlling or summarizing account, Estimated Revenue, and the Fund Balance account are shown, as before, in the *Debit* and *Credit* columns, respectively; both are General Ledger accounts. The Estimated Revenue account is called a control or summarizing account because it represents the total of all the individual revenue accounts. Accounts and amounts to be posted to the subsidiary ledger are entered in the *Account Title and Explanation Column* and do not have the balancing feature of debits and credits; however, postings to the individual subsidiary Revenue Ledger accounts must add to the total shown in the Estimated Revenue control account in the General Ledger.

GENERAL JOURNAL

Page 2

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 1	Estimated Revenue	2020	610,520	00		
	Fund Balance	2010			610,520	00
	To record and establish the Estimated					
	Revenue Summary account in the Gen-					
	eral Ledger for the approved General					
	Fund budget for the fiscal year 1966-					
	67. Detailed breakdown of Estimated					
	Revenue is listed below:					
	Acct.# Title Amount					
	11 Tax. & Appro. Rec'd. $353,270.00	11				
	14 Other Rev. fr. Loc. Srcs. 300.00	14				
	20 Rev. fr. Intermed. Srcs. 220.00	20				
	30 Rev. fr. State Sources 253,380.00	30				
	40 Rev. fr. Fed. Sources 2,000.00	40				
	80 Amounts Rec'd. fr. Other	80				
	Schl. Dists. in the State 1,350.00					
	$610,520.00					

Posting the general ledger

The journal entry for recording the approved total estimated revenue budget is posted to the General Ledger in the same manner as the journal entry which originally opened the books. The account numbers 2020 and 2010, for the Estimated Revenue and Fund Balance accounts, are taken from the Chart of Accounts in chapter III, page 26.

GENERAL LEDGER

Page 1

Account Fund Balance

Account # 2010

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1966 July 1	Beg. Balance	J1	34,410 15
				1	Set up Est. Rev. acct.	J2	610,520 00

GENERAL LEDGER

Page 1

Account Estimated Revenue

Account # 2020

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1966 July 1	Set up Est. Rev. acct.	J2	610,520 00				

Note that in the case of the Fund Balance account, the credit adds to the credit balance resulting from the posted original opening journal entry in chapter III. The new credit balance of $644,930.15 (sum of the old balance $34,410.15 plus $610,520.00) represents an estimated fund balance which will be used to finance the General Fund operations during the fiscal year.

Posting the subsidiary ledger

The subsidiary Revenue Ledger forms used provide space for recording estimated revenues, actual revenues and the uncollected balance of estimated revenues. Since we now are concerned with recording the budget, the entries shown below are recorded in the Estimated Revenue columns. The revenue accounts are posted as follows:

REVENUE LEDGER

Account # 11
Page 1
Account Description Taxation and Appropriation

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	353,270 00			353,270 00

REVENUE LEDGER

Account # 14
Page 1
Account Description Other Revenue from Local Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	300 00			300 00

REVENUE LEDGER

Account # 20
Page 1
Account Description Revenue from Intermediate Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	220 00			220 00

REVENUE LEDGER

Account # 30
Page 1
Account Description Revenue from State Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	253,380 00			253,380 00

REVENUE LEDGER

Account # 40
Page 1
Account Description Revenue from Federal Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	2,000 00			2,000 00

REVENUE LEDGER

Account # 80
Page 1
Account Description Rev. from Other Schl. Dists. in State

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	1,350 00			1,350 00

The appropriation and expenditure budget

The approved appropriations in the annual budget for the hypothetical school district are shown on pages 42–43. Again the account description and numbers for appropriation and expenditure accounts are taken directly from Handbook II, *Financial Accounting for Local and State School Systems.*[2]

Each of the appropriation and expenditure items in the budget should be accounted for separately so that expenditures may be controlled within individual budget classifications. This is accomplished by use of a subsidiary Appropriation and Expenditure Ledger.

The difference between the terms appropriation and expenditure is that the former is the money budgeted for specific purposes, and the latter is the money spent for the same purpose. For example, if $2,000 is appropriated for School Supplies, we say we have a $2,000 appropriation. As the $2,000 is spent on school supplies, we have expenditures against the original appropriation.

The Budget for Expenditures may be formally revised later if estimated expenditures change. Sample revisions of this type are shown in a later chapter.

Recording estimated expenditures or appropriations

The General Journal entry recording appropriations lists the General Ledger accounts, the subsidiary Appropriation and Expenditure Ledger accounts, and the amounts for each. Note that the account numbers 2010 (Fund Balance) and 2040 (Appropriations control account) are taken from the Chart of Accounts in chapter III, page 26. The entry recording appropriations (estimated expenditures) is shown on pages 44–45.

ESTIMATED EXPENDITURES
FISCAL YEAR 1967

100. Administration			
110. Salaries		$18, 600	
120. Contracted Services		250	
130. Other Expenses		300	$19, 150
200. Instruction			
210. Salaries			
211. Principals	$30, 000		
212. Supervisors	20, 000		

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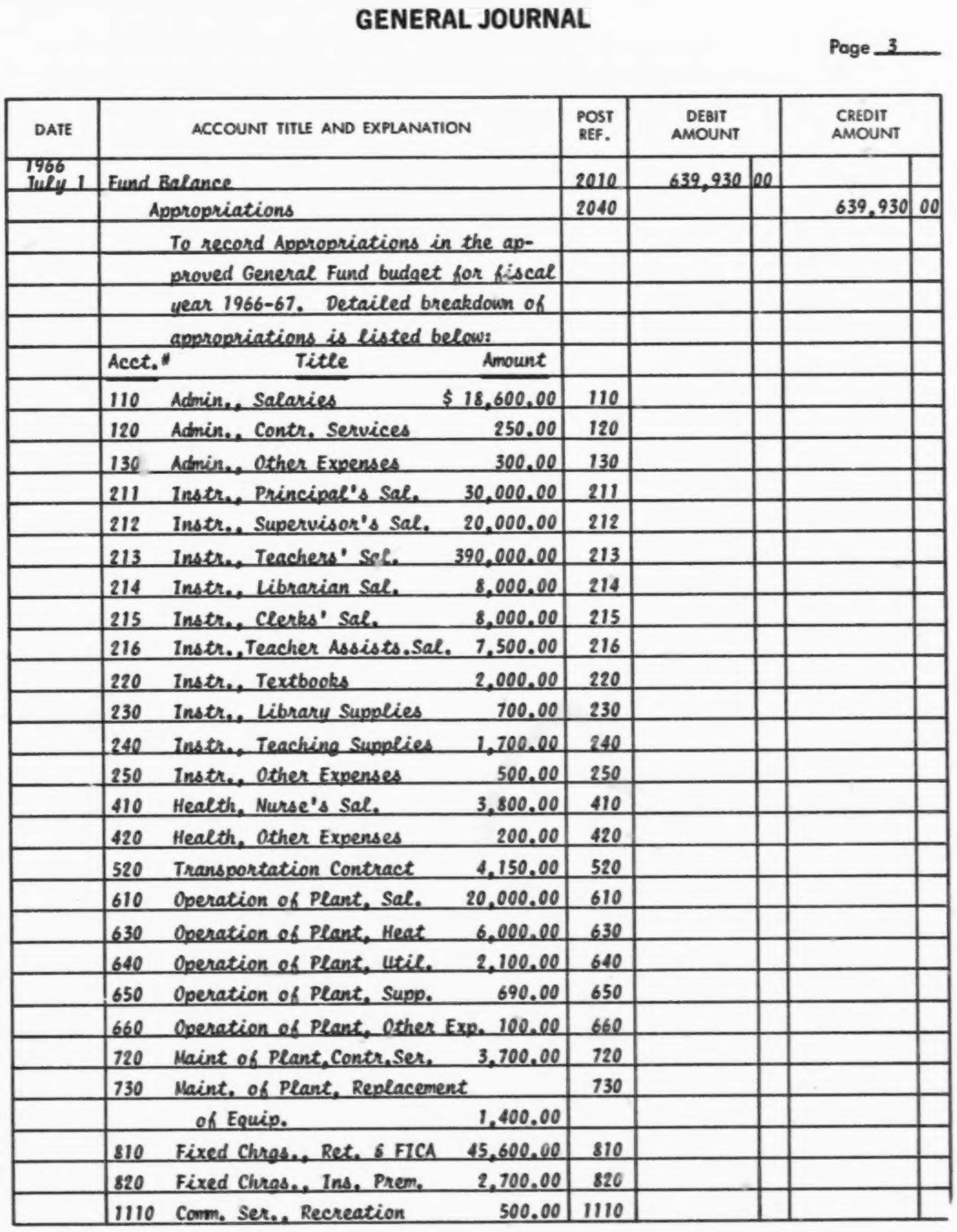
[2] Reason and White, p. XIX.

213. Teachers	$390,000		
214. Librarian	8,000		
215. Clerks	8,000		
216. Guidance	7,500	$463,500	
220. Textbooks		2,000	
230. Library Supplies		700	
240. Teaching Supplies		1,700	
250. Other Expenses		500	$468,400
400. Health Services			
410. Nurses' Salaries		3,800	
420. Other Expenses		200	4,000
500. Pupil Transportation Services			
520. Transportation Contract		4,150	4,150
600. Operation of Plant			
610. Salaries		20,000	
630. Heat		6,000	
640. Utilities		2,100	
650. Supplies		690	
660. Other Expenses		100	28,890
700. Maintenance of Plant			
720. Contracted Services		3,700	
730. Replacements of Equipment		1,400	5,100
800. Fixed Charges			
810. Retirement & FICA		45,600	
820. Insurance Premium		2,700	48,300
1100. Community Services			
1110. Recreation		500	
1130. Public Libraries		500	1,000
1200. Capital Outlay			
1220. Buildings		22,000	
1230. Equipment		4,000	26,000
1300. Debt Service			
1310. Principal		32,000	
1320. Interest		2,500	34,500
1400. Outgoing Transfer Accounts			
1410. Tuition		440	440
Total Appropriations			$639,930

The total of the appropriations is debited to the Fund Balance account. The total appropriations in all accounts in the subsidiary

Appropriation and Expenditure Ledger are equal to the balance in the General Ledger Appropriations account.



GENERAL JOURNAL

Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 1	Fund Balance	2010	639,930	00		
	Appropriations	2040			639,930	00
	To record Appropriations in the ap-					
	proved General Fund budget for fiscal					
	year 1966-67. Detailed breakdown of					
	appropriations is listed below:					
	Acct.# Title Amount					
	110 Admin., Salaries $ 18,600.00	110				
	120 Admin., Contr. Services 250.00	120				
	130 Admin., Other Expenses 300.00	130				
	211 Instr., Principal's Sal. 30,000.00	211				
	212 Instr., Supervisor's Sal. 20,000.00	212				
	213 Instr., Teachers' Sal. 390,000.00	213				
	214 Instr., Librarian Sal. 8,000.00	214				
	215 Instr., Clerks' Sal. 8,000.00	215				
	216 Instr.,Teacher Assists.Sal. 7,500.00	216				
	220 Instr., Textbooks 2,000.00	220				
	230 Instr., Library Supplies 700.00	230				
	240 Instr., Teaching Supplies 1,700.00	240				
	250 Instr., Other Expenses 500.00	250				
	410 Health, Nurse's Sal. 3,800.00	410				
	420 Health, Other Expenses 200.00	420				
	520 Transportation Contract 4,150.00	520				
	610 Operation of Plant, Sal. 20,000.00	610				
	630 Operation of Plant, Heat 6,000.00	630				
	640 Operation of Plant, Util. 2,100.00	640				
	650 Operation of Plant, Supp. 690.00	650				
	660 Operation of Plant, Other Exp. 100.00	660				
	720 Maint of Plant,Contr.Ser. 3,700.00	720				
	730 Maint. of Plant, Replacement	730				
	of Equip. 1,400.00					
	810 Fixed Chrgs., Ret. & FICA 45,600.00	810				
	820 Fixed Chrgs., Ins. Prem. 2,700.00	820				
	1110 Comm. Ser., Recreation 500.00	1110				

GENERAL JOURNAL

Page 3A

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 1	1130 Comm. Ser., Pub. Libr. 500.00	1130		
	1220 Capital Outlay, Bldgs. 22,000.00	1220		
	1230 Capital Outlay, Equip. 4,000.00	1230		
	1310 Debt Ser., Principal 32,000.00	1310		
	1320 Debt Ser., Interest 2,500.00	1320		
	1410 Outgoing Trans., Tuition 440.00	1410		
	TOTAL APPROPRIATIONS $639,930.00			

Posting to the general ledger

The journal entry for recording the approved total Appropriation and Expenditure budget is posted to the General Ledger in the same manner as the journal entry for the Estimated Revenue. Note that the General Ledger account Fund Balance has the previous postings recorded for opening the books and recording the Estimated Revenue.

Note, again, that the debit to the Fund Balance account has been subtracted from the previous credit balance reducing the balance of the account to $5,000.15. Thus, the balance in one account, Fund Balance, has been transferred to several Appropriation and Expenditure Ledger accounts; in other words, the funds have been earmarked for specific purposes.

GENERAL LEDGER

Page 1

Account Fund Balance

Account # 2010

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1966 July 1	Set up Appropriations acct.	J3	639,930 00	1966 July 1	Beg., balance	J1	34,410 15
				1	Set up Est. Rev. acct.	J2	610,520 00

GENERAL LEDGER

Page 1

Account Appropriations

Account # 2040

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1966 July 1	Set up Appropriations acct.	J3	639,930 00

Posting the appropriation and expenditure ledger

The subsidiary Appropriation and Expenditure Ledger is posted from the detailed breakdown shown in the General Journal entry. The posting is entered in the "Unencumbered Balance" column because at this point (the start of the fiscal year) no expenditures have been made.

There are more accounts in the Appropriation and Expenditure Ledger than in other ledgers and the majority of posting is to that ledger. These accounts are the most important to school administrators in the day-to-day operation of the schools because they reflect the status of the budget—how much unencumbered or uncommitted money is available for spending. The unencumbered balance is what is left after deducting from the original appropriation the expenditures and encumbrances (funds committed for salaries and by purchase orders).

Normally, the total revenue available to a school district is allocated to meet the various types of expenditures which will occur during the year; and management of the Appropriation and Expenditure Ledger accounts becomes the major financial problem. For this reason an encumbrance system is recommended in the management of a school district's finances.

As indicated above, encumbrances are commitments in the form of purchase orders, contracts, or salary contracts which are chargeable to an appropriation and for which a part of the appropriation is reserved. When the commitments are paid or when a liability is actually established, they cease to be encumbrances. The use of encumbrances will be illustrated in the next chapter.

The form used for the Appropriation and Expenditure Ledger accounts differs from the form used for the Revenue and General Ledger accounts. In addition to the appropriation and expenditure columns, columns are provided for encumbrances, liquidations (or reductions of encumbrances), total encumbrances, and the unencumbered balance.

Appropriations are posted to the appropriation and expenditure accounts as follows:

APPROPRIATION AND EXPENDITURE LEDGER

Account # 110 Page 1

Account Description Administration, Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	18,600 00							18,600 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 120

Page 1

Account Description Administration, Contracted Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	250 00							250 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 130

Page 1

Account Description Administration, Other Expense

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	300 00							300 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 211

Page 1

Account Description Instruction, Principals' Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	30,000 00							30,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 212

Page 1

Account Description Instruction, Supervisors' Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	20,000 00							20,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # *213*

Page *1*

Account Description *Instruction, Teachers' Salaries*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	390,000 00							390,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # *214*

Page *1*

Account Description *Instruction, Librarian Salary*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	8,000 00							8,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # *215*

Page *1*

Account Description *Instruction, Clerks' Salaries*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	8,000 00							8,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # *216*

Page *1*

Account Description *Instruction, Teacher Assistants' Salaries*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	7,500 00							7,500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 220

Page 1

Account Description *Instruction, Textbooks*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	2,000 00							2,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 230

Page 1

Account Description *Instruction, Library Supplies*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	700 00							700 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 240

Page 1

Account Description *Instruction, Teaching Supplies*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	1,700 00							1,700 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 250

Page 1

Account Description *Instruction, Other Expenses*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	500 00							500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 410 Page 1

Account Description Health, Nurse's Salary

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	3,800 00							3,800 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 420 Page 1

Account Description Health, Other Expenses

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	200 00							200 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 520 Page 1

Account Description Transportation Contract

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	4,150 00							4,150 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 610 Page 1

Account Description Operation of Plant, Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	20,000 00							20,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 630

Page 1

Account Description Operation of Plant, Heat

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	6,000 00							6,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 640

Page 1

Account Description Operation of Plant, Utilities

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	2,100 00							2,100 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 650

Page 1

Account Description Operation of Plant, Supplies

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	690 00							690 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 660

Page 1

Account Description Operation of Plant, Other Expenses

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	100 00							100 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 720 Page 1

Account Description Maintenance of Plant, Contracted Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	3,700 00							3,700 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 730 Page 1

Account Description Maintenance of Plant, Replacement of Equipment

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	1,400 00							1,400 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 810 Page 1

Account Description Fixed Charges, Retirement and FICA

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	45,600 00							45,600 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 820 Page 1

Account Description Fixed Charges, Insurance Premium

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	2,700 00							2,700 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1110 Page 1

Account Description Community Service, Recreation

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	500 00							500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1130 Page 1

Account Description Community Service, Public Library

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3A	500 00							500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1220 Page 1

Account Description Capital Outlay, Buildings

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3A	22,000 00							22,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1230 Page 1

Account Description Capital Outlay, Equipment

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3A	4,000 00							4,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1310 Page 1

Account Description Debt Service - Principal

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	32,000 00							32,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1320 Page 1

Account Description Debt Service - Interest

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	2,500 00							2,500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1410 Page 1

Account Description Outgoing Transfers - Tuition

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	440 00							440 00

Note in each preceding account that the approved appropriation (estimates of expenditure) is shown in the Appropriations column as well as in the last column, Unencumbered Balance. As amounts are entered in the Encumbrance or Expenditure columns, the Unencumbered Balance (the amount not obligated or expended) column will be adjusted accordingly. These entries are described in detail in the next several chapters.

At this point the General Ledger has been opened and the official budget has been recorded. Another trial balance should be made at this point, similar to the one prepared in chapter II, to make sure that all the postings to the General Ledger accounts were correct. Remember that a trial balance is prepared by

(a) Determining the account balance and whether it is a debit or credit balance.

(b) Listing the debit balances in one column.

(c) Listing all the credit balances in the other column.

(d) Adding each column.

(e) Comparing the column totals to make sure they are equal.

If the column totals are not equal, it is necessary to check your postings to find the errors and make corrections. The trial balance should always show the name of the district, the title of the report (trial balance), and the date. At this point the trial balance is as shown below.

Now that the General Ledger is open, a series of hypothetical transactions is illustrated in the next chapters to demonstrate the principles and procedures described earlier.

HYPOTHETICAL SCHOOL DISTRICT
TRIAL BALANCE
July 1, 1966

	Account Title	Acct. No.	Debit		Credit	
	Cash	1501	69,445	55		
	Petty Cash	1510	400	00		
	Prepaid Expense	1530	3,000	00		
	Accounts Receivable	1540	3,652	15		
	Investments	1550	24,847	20		
	Salaries Payable	1605			56,900	00
	Accounts Payable to Vendors	1610			3,673	25
	Payroll Deductions Payable	1620			6,361	50
	Fund Balance	2010			5,000	15
	Estimated Revenue	2020	610,520	00		
	Appropriations	2040			639,930	00
			711,864	90	711,864	90

Summary

(1) The official statement of the anticipated revenues and expenditures of a school district for a definite period of time is called a **Budget.**

(2) An **Appropriation** is money budgeted for specific purposes.

(3) **Encumbrances** are commitments in the form of purchase orders, contracts, or salary contracts which are chargeable to an appropriation and for which a part of the appropriation is reserved.

(4) The amount not obligated or expended in an Appropriation and Expenditure Ledger account is called the **Unencumbered Balance.**

CHAPTER V

A Sample Month of Transactions

In chapters III and IV the groundwork has been laid for recording financial transactions in our hypothetical school district. The operations illustrated in those chapters are normally performed only once a year, that is, at the beginning of the fiscal year. As chapter III indicates, the recording of the district's assets and liabilities opened the General Ledger and shows what the district has and owes; the difference between the latter is the fund balance.

As chapter IV indicates, the annual budget is next recorded in the General Ledger by first journalizing it in the General Journal and then posting to the accounts of the General Ledger.

Chapter IV defines the term *encumbrances* as commitments in the form of purchase orders, contracts, or salary commitments. They are chargeable to an appropriation and, in effect, reserve part of the appropriation. Effective expenditure control requires the recording not only of the cash expenditures, but also of the liabilities and encumbrances. When incorporated into the accounting system of a school district, encumbrance procedures serve to reserve or restrict portions of the budget appropriations of the district for commitments or contractual obligations which have been made. In the normal operation of a school district it is necessary that the financial records enable the school administrator to distinguish between what has actually been spent and what has been committed against the budget so that he knows what is left for future needs. Financial records would be very misleading if obligated or committed amounts were not deducted from the amount available for expenditures, and might well result in exceeding the appropriation. The use of encumbrances to indicate current obligations or commitments which will become future expenditures is sound financial management and eliminates any guesswork regarding the unencumbered balance in any account.

Encumbrances and reserve for encumbrances accounts

It is recommended that Encumbrances and Reserve for Encumbrances accounts be used in the General Ledger, and these accounts are numbered 2060 and 2011, respectively. These are again control accounts similar to the Estimated Revenue and Appropriations control accounts as illustrated in chapter IV. These accounts will be posted in summary only and the detailed breakdown of the summary will be shown below the entry in the General Journal. Each Appropriation and Expenditure Ledger account provides for the budgetary appropriations and looks like this:

APPROPRIATION AND EXPENDITURE LEDGER

Page 1

Account # 120

Account Description Administration, Contracted Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	250 00							250 00

Please note that there are columns provided for obligating and liquidating the encumbrances and for showing the total encumbrances to date. These subsidiary Appropriation and Expenditure Ledger accounts will be posted from the detailed breakdown of the General Journal entry.

Whether a purchase order is issued or a direct cash expenditure is made to obtain goods and/or services, the accounting sequence is from the General Journal to the appropriate control account to the appropriate subsidiary ledger account. For the specific differences that occur, that is, the control accounts and columns used in the subsidiary ledger with a direct cash expenditure, and those used with an encumbrance (purchase order), see illustrations 2, 3, 4, and 5 on pages 112 through 115. The transactions entered and accounts used in these illustrations are not necessarily related to other materials in this manual.

A sample set of transactions for one month

The following transactions which are illustrated might not all take place in one month, but to show a continuity of operation, let us assume that the 31 transactions listed below take place in the month of July. This will show the reader a series of sample transactions for a one month period. Sample transactions:

1. Encumber the entire payroll as provided for in the adopted appropriations budget; the payroll accounts or the salary accounts are listed below:

Acct. No. 110 Administration	$18, 600
Acct. No. 211 Principals	30, 000
Acct. No. 212 Supervisors	20, 000
Acct. No. 213 Teachers	390, 000
Acct. No. 214 Librarian	8, 000

245-882 O—67——5

Acct. No. 215 Clerks	$8, 000
Acct. No. 216 Other Staff (Teacher Assistants)	7, 500
Acct. No. 410 Health, Nurse	3, 800
Acct. No. 610 Custodians	20, 000
	$505, 900

2. Issue a purchase order to: Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, for four copies of *School Building Maintenance Procedures* by R. N. Finchum, OE–21027, Bulletin 1964, No. 17, at $1.25 each, total $5.00.

3. Pay Accounts Payable to Vendors:

School Paper Co	$873. 00
School Book Co	1, 200. 25
School Supply Co	900. 00
Athletic Equipment Co	700. 00
	$3, 673. 25

4. Information is received that *Other Revenue from Local Sources* (account No. 14) will be increased by $2,500.

5. The school district receives a check for $675 from the neighboring school district for tuition for two special students.

6. Cancel the purchase order to the Superintendent of Documents in Washington, D.C., because a free copy was received in the mail.

7. Issue a purchase order to the XYZ Hardware Store for 10 gallons of outside paint at $5 a gallon.

8. The school district borrows, on a 30-day note, $20,000 from the National Bank at an annual interest rate of 3 percent.

9. Award a contract to the Hill and Dale Bus Co. in the amount of $4,150 for pupil transportation during the coming school year.

10. Pay the invoice from the XYZ Hardware Store for the 10 gallons of paint—invoice amount is $48.50.

11. Purchase a three-year fire insurance policy from Congress Insurance Agency and pay the premium in full in the amount of $1,800.

12. Issue a check for $25 to the high school principal to set up a Petty Cash Fund.

13. Receive a check from the State department of education in the amount of $25,338.

14. Pay the payroll for the 14th of the month. The $14,225 being debited to Salaries Payable is one-fourth of the $56,900 which, as explained on page 31, is for salaries earned by teachers but unpaid during fiscal year 1966. For each of the four payrolls during July and August, $14,225 will be paid to teachers for the previous fiscal year.

Salaries Payable	$14, 225. 00	
Expenditures	5, 232. 00	
Retirement Deductions		$972. 85
Income Tax Withheld		1, 955. 70
Hosp. Ins. Deducted		480. 00
FICA Deducted		906. 25
Cash		15, 142. 20

Appropriation and Expenditure Ledger Detail:

Administration	110	$715
Principals	211	1, 153
Supervisors	212	769
Teachers	213	778
Librarian	214	307
Clerks	215	307
Teacher Assistants	216	288
Nurse	410	146
Oper. of Plant (Custodians)	610	769
		$5, 232

14. Pay the $1,955.70 withheld from the July 14 payroll as Federal income tax deductions to the United States Treasury.

15. Pay the State Retirement Board $12,723 ($6,361.50 for employees retirement deductions, which was on the balance sheet as payroll deductions payable as of June 30 of the previous fiscal year, and a matching amount as the school district's contribution).

16. Receive a check from the local tax collector in the amount of $84,010.

17. Repay the $20,000 note and $16.40 interest to the National Bank.

18. Issue purchase orders for textbooks and teaching supplies to the following:

School Book Co.	$420
School Supply Co.	180

19. Pay the June telephone bill in the amount of $97.

20. Pay travel expenses of Miss Smith to the Remedial Reading Conference in the amount of $38.

21. Replenish the high school Petty Cash Fund because $18 has been spent for office supplies.

22. Pay for textbooks received from the School Book Co., transaction No. 18 above. The invoice is for $378 plus $12.50 freight charge.

23. The school district's Treasurer uses $50,000 of inactive funds to buy 90-day U.S. Treasury bills for investment purposes.

24. Miss Jane Jones, teacher, resigns; her contract salary for this school year was $5,000.

25. Hailstorm damage requires $156 for emergency repairs to the Lichtenberger Elementary School.

26. Instructional supplies are received from the School Supply Co., with an invoice for $180, terms of 2 percent/10 days.

27. The superintendent hires Miss Mary Moore to take Miss Jones' place this fall at a salary of $5,400.

28. Pay the payroll for the 28th in the same amounts as for the 14th.

28. Pay the $1,955.70 withheld from the July 28 payroll as Federal income tax deductions to the United States Treasury.

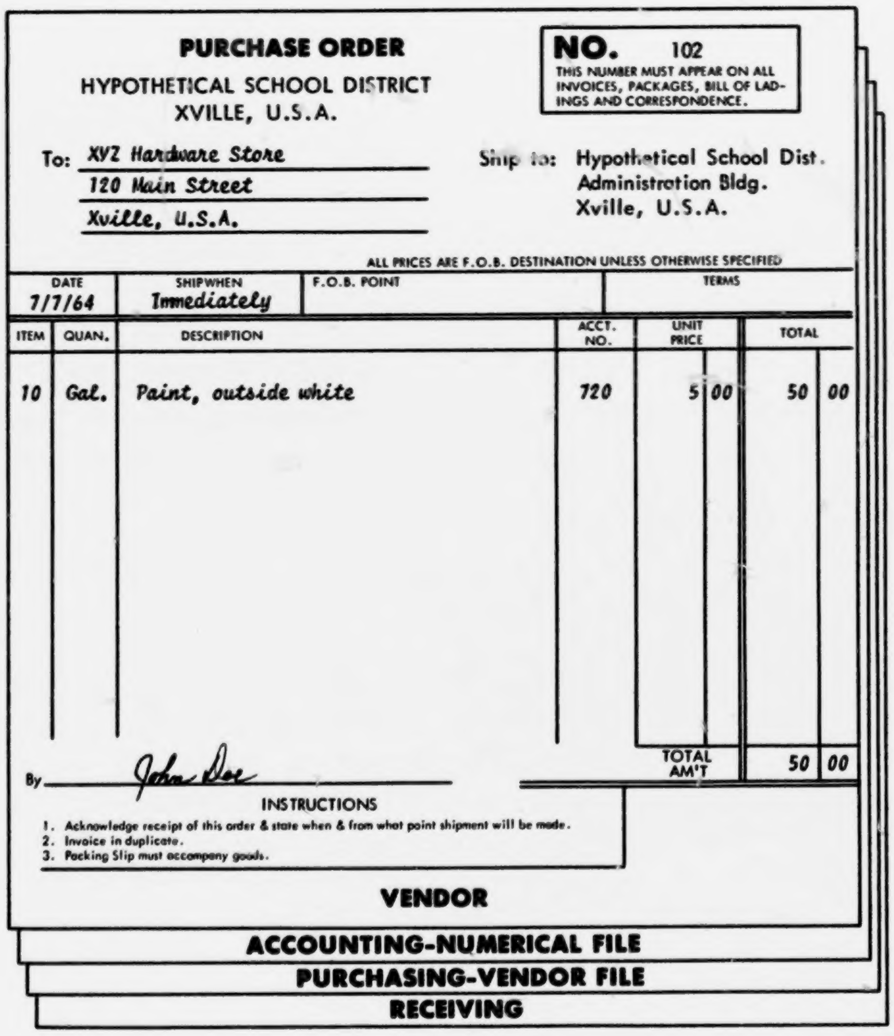
28. Pay the State Retirement Board (employer's rate same as that for employees') for the current month's employees deductions plus the school district's contribution.

29. The school district signs a contract with the AIA Architectural Co. at an estimated cost of $8,000 for preliminary plans for an addition to the high school building.

30. A check for $106 is received from the insurance company to compensate for the hail damage.

31. The school district receives $10,000 as a result of the maturing of certain U.S. Treasury bills. The original investment was $9,912.50.

For the benefit of the users of this manual, an analysis of each journal entry is shown on the left hand page opposite the corresponding journal entry on the right hand page. The various General Ledger accounts, the Revenue Ledger accounts, and the Expenditure Ledger accounts are shown at the end of the chapter posted according to the dates of the transactions.



PURCHASE ORDER

HYPOTHETICAL SCHOOL DISTRICT
XVILLE, U.S.A.

NO. 102
THIS NUMBER MUST APPEAR ON ALL INVOICES, PACKAGES, BILL OF LADINGS AND CORRESPONDENCE.

To: XYZ Hardware Store
120 Main Street
Xville, U.S.A.

Ship to: Hypothetical School Dist.
Administration Bldg.
Xville, U.S.A.

ALL PRICES ARE F.O.B. DESTINATION UNLESS OTHERWISE SPECIFIED

DATE	SHIPWHEN	F.O.B. POINT	TERMS
7/7/64	Immediately		

ITEM	QUAN.	DESCRIPTION	ACCT. NO.	UNIT PRICE		TOTAL	
10	Gal.	Paint, outside white	720	5	00	50	00
				TOTAL AM'T		50	00

By John Doe

INSTRUCTIONS

1. Acknowledge receipt of this order & state when & from what point shipment will be made.
2. Invoice in duplicate.
3. Packing Slip must accompany goods.

VENDOR

ACCOUNTING-NUMERICAL FILE

PURCHASING-VENDOR FILE

RECEIVING

1. In the journal entry for the first transaction, note that the Encumbrance account is debited for the total amount of salaries as listed in the budget and the Reserve for Encumbrance account is credited for the same amount. Listed below the debit and credit entries are the Appropriation and Expenditure Ledger details which are posted to the obligation columns of encumbrances. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and pages 97 to 103 for the posting to the subsidiary Appropriation and Expenditure Ledger accounts.

2. The journal entry for this transaction is basically the same as the first journal entry; however, in this case, we are encumbering for an item which is being purchased. Note again that the Encumbrance account is debited and the Reserve for Encumbrance account is credited for $5. The detail account in the Appropriation and Expenditure Ledger, Other expense—Operation, is also debited. An example of one form often used for purchase orders is shown on page 61. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 104 for the posting to the subsidiary Appropriation and Expenditure Ledger account.

3. Please note that this transaction records the payment of Accounts Payable which appeared on the balance sheet as outstanding bills from the previous fiscal year. The journal entry is a debit to Accounts Payable and a credit to Cash. Note that this is an example of reducing a liability and also reducing the asset Cash and that the detailed list of the companies to be paid is below the journal entry. See pages 90 and 92 for the posting of the journal entry to the General Ledger accounts.

GENERAL JOURNAL

Page 4

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 1	Encumbrances	2060	505,900	00		
	Reserve for Encumbrances	2011			505,900	00
	Appropriation and Expenditure Ledger Detail:					
	Acct.# Title Amount					
	110 Administration $ 18,600.00	110				
	211 Principals 30,000.00	211				
	212 Supervisors 20,000.00	212				
	213 Teachers 390,000.00	213				
	214 Librarian 8,000.00	214				
	215 Clerks 8,000.00	215				
	216 Teacher Assistants 7,500.00	216				
	410 Nurse 3,800.00	410				
	610 Oper. of Plant (Custodians) 20,000.00	610				
	$505,900.00					
	To record salary encumbrances for all					
	personnel approved in the adopted					
	budget					
2	Encumbrances	2060	5	00		
	Reserve for Encumbrances	2011			5	00
	Appropriation and Expenditure Ledger Detail:					
	Other expense - Operation $5.00	660				
	To record Purchase Order #101, Supt. of					
	Documents					
3	Accounts Payable	1610	3,673	25		
	Cash	1501			3,673	25
	To record payments to					
	School Paper Co. $ 873.00					
	School Book Co. 1,200.25					
	School Supply Co. 900.00					
	Athletic Equipment 700.00					
	$3,673.25					

4. In this instance the school district has been informed that it will receive $2,500 additional revenue. This revision is accomplished by debiting the Estimated Revenue account and crediting the Fund Balance account. Include the subsidiary Revenue Ledger detail, in this case Other Revenue from Local Sources, below the main entry. When payment is received, the Cash account will be debited and the Revenue account will be credited. See page 93, for the posting of the journal entry to the General Ledger accounts and page 96 for the posting to the subsidiary Revenue Ledger account.

5. The school district received $675 from another school district. Here the asset Cash is increased, and therefore it is debited. This is balanced by a credit to the Revenue account, which also is increased. The latter is a summary account; in order to have this transaction reflect the exact type of revenue received, it is necessary to post also to the subsidiary Revenue Ledger account. See pages 90 and 93 for the posting of the journal entry to the General Ledger accounts and page 96 for the posting to the subsidiary Revenue Ledger account.

6. In this transaction the school district cancels the purchase order which was sent to the Superintendent of Documents in Washington, D.C. Therefore, it is necessary to liquidate the encumbrance which was made for the original transaction No. 2. Note here that the Reserve for Encumbrances account is debited and the Encumbrance account is credited, just the opposite of transaction No. 2. Similarly, the Appropriation and Expenditure Ledger details will now show that the $5 amount under the Encumbrances column in account number 660 has been liquidated, and note in the right-hand unencumbered balance column in the same account that the amount has increased by $5. This $5 restoration is available for purchase of some other item. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 104 for the posting to the subsidiary Appropriation and Expenditure Ledger account.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 4	Estimated Revenue	2020	2,500	00		
	Fund Balance	2010			2,500	00
	Revenue Ledger Detail:					
	Other Revenue from Local Sources-$2,500.00	14				
	To record revised estimate of revenue					
	from local sources.					
5	Cash	1501	675	00		
	Revenue	2030			675	00
	Revenue Ledger Detail:					
	Tuition from Other School Districts-$675.	80				
	To record receipt of tuition from PDO					
	School District for students Betty					
	Miller and Delores Austin					
6	Reserve for Encumbrances	2011	5	00		
	Encumbrances	2060			5	00
	Appropriation and Expenditure Ledger Detail:					
	Other expense - Operation $5.00	660				
	To record encumbrance liquidation of PO					
	#101 due to cancellation of the order					

7. Another purchase order has been issued in the amount of $50 for 10 gallons of paint at $5 a gallon. Again, a debit is made to the Encumbrance account and a credit to the Reserve for Encumbrances account. The detail is posted to the subsidiary Appropriation and Expenditure Ledger, account No. 720. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 104 for the posting to the subsidiary Appropriation and Expenditure Ledger account.

8. In this transaction the asset Cash is increased by borrowing money from the bank. This new liability is called Notes Payable and is assigned an account number 1611. Therefore, the Cash account is debited to record the increase of the asset and the Notes Payable account, a liability, is credited to record the liability. See pages 90 and 92 for the posting of the journal entry to the General Ledger accounts.

9. In this transaction a contract has been issued to the Hill and Dale Bus Company for pupil transportation. In this case the school district is buying services, and thus the entry would be the same as for the issuance of a purchase order. The Encumbrance account is debited for the full amount of the contract and Reserve for Encumbrances is credited for the same amount. The subsidiary Appropriation and Expenditure Ledger Account number 520, Pupil Transportation, also shows an obligation of this amount of money in the Encumbrances column. As the monthly bills from the Bus Company are received and paid, the encumbrance will be reduced by the amount paid. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 102 for the posting to the Appropriation and Expenditure Ledger Account.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 7	Encumbrances	2060	50	00		
	Reserve for Encumbrances	2011			50	00
	Appropriation and Expenditure Ledger Detail:					
	Contracted Services - Maintenance $50.00	720				
	To record issue of Purchase Order #102					
8	Cash	1501	20,000	00		
	Note Payable	1611			20,000	00
	To record loan (note) from National					
	Bank @ 3%					
9	Encumbrances	2060	4,150	00		
	Reserve for Encumbrances	2011			4,150	00
	Appropriation and Expenditure Ledger Detail:					
	Pupil Transportation contract $4,150.00	520				
	To record contract with Hill & Dale					
	Bus Company					

10. Note in this transaction that an invoice and the paint have been received for purchase order No. 102 which was transaction No. 7 above. The school district is now paying for the paint it ordered in transaction No. 7 above. Therefore, the Expenditure control account is debited to show an increase in expenditure, and the Cash account is credited to show the reduction in Cash. At this point, the reader is probably aware of the fact that the invoice was for $48.50, but the original encumbrance was for $50. Therefore, there is a second transaction marked as No. 10 which would be journalized at the same time; the previous encumbrance amount of $50 will now be liquidated both from the control accounts and from the Appropriation and Expenditure Ledger detail account. Note again that the debit to the Reserve for Encumbrances account and the credit to the Encumbrances account are the opposite of transaction No. 7 in order to liquidate the encumbrance. See pages 90 and 94 for the posting of the first journal entry to the General Ledger accounts and page 104 for the posting to the Appropriation and Expenditure Ledger account. See pages 93 and 94 for the posting of the second journal entry to the General Ledger accounts and page 104 for the posting to the Appropriation and Expenditure Ledger account.

11. The school district is making a direct expenditure by paying $1,800 for an insurance policy. Since the benefits of this policy will last for three years, only the current year's share will be charged as a current expenditure. Thus $600, this year's share, is recorded as a debit to the Expenditure Summary account and also in the Appropriation and Expenditure Ledger *detail* account. The remaining $1,200 is established as an asset called Prepaid Expenses and is debited; in each of the following two years, $600 will be charged as an expenditure, finally resulting in a zero asset balance. The Cash account is credited to reflect a decrease of $1,800 in the asset cash. See pages 90, 91, and 94 for the posting of the journal entry to the General Ledger accounts and page 105 for the posting to the Appropriation and Expenditure Ledger account.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 10	Expenditures	2050	48	50		
	Cash	1501			48	50
	Appropriation and Expenditure Ledger Detail:					
	Contracted Services - Maintenance $48.50	720				
	To pay invoice from XYZ Hardware					
	Company, Purchase Order #102					
10	Reserve for Encumbrances	2011	50	00		
	Encumbrances	2060			50	00
	Appropriation and Expenditure Ledger Detail:					
	Contracted Services - Maintenance $50.00	720				
	To record encumbrance liquidation of					
	Purchase Order #102					
11	Expenditures	2050	600	00		
	Prepaid Expenses	1530	1,200	00		
	Cash	1501			1,800	00
	Appropriation and Expenditure Ledger Detail:					
	Fixed Charges - Insurance & Judgements					
	$600.00	820				
	To record payment of 3 year policy					
	with Congress Insurance Agency					

12. In this transaction one asset is increased and one asset is decreased by an equal amount; that is, $25 is transferred to the Petty Cash account and the main Cash account is reduced by a like amount. Therefore, the Petty Cash account is debited and the main Cash account is credited. Please note that this is the entry normally required to establish a new Petty Cash account or to increase an existing Petty Cash account. Transaction No. 21 will illustrate how to reimburse the Petty Cash account when money has been spent for supplies or other sundry items. See pages 90 and 91 for the posting of the journal entry to the General Ledger accounts.

13. This transaction records the receipt of cash from the State department of education. The Cash account is debited to record the increase in Cash, and the Revenue account as well as the detail account in the subsidiary Revenue Ledger are credited. See pages 90 and 93 for the posting of the journal entry to the General Ledger accounts and page 96 for the posting to the Revenue Ledger account.

14. This transaction records the payroll for the 14th of the month, which is comprised of charges against two different fiscal years. The $14,225 debited to Salaries Payable, as explained on page 31, is for gross salaries earned by teachers but unpaid during the previous fiscal year; it was charged to the Expenditure control account when the Salaries Payable account was established at the end of the previous fiscal year. The second debit entry, $5,232 to the Expenditures control account, is the gross amount for current fiscal year salaries, and must also be posted to the various expenditure ledger accounts. Because the retirement cost, Federal income tax, social security cost, and hospitalization insurance cost are deducted from the gross payroll and the employee receives a net amount of cash, the total of all of these deductions for all employees is shown as a series of credit entries, offsetting or balancing the gross payroll as shown in the debit columns. Transaction No. 5, chapter II, page 17, involved the payment of $44,000 to teachers for salaries. These deductions were omitted at that early stage of the handbook. Chapter VIII will introduce a system of actual payroll preparation

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 12	Petty Cash	1510	25	00		
	Cash	1501			25	00
	To record issue of Petty Cash to high school principal					
13	Cash	1501	25,338	00		
	Revenue	2030			25,338	00
	Revenue Ledger Detail:					
	Revenue from State sources $25,338.00	30				
	To record receipt of monthly State appropriation					
14	Salaries Payable	1605	14,225	00		
	Expenditure	2050	5,232	00		
	Payroll Deductions Payable- Retirement	1620			972	85
	Payroll Deductions Payable- Fed.Inc.Tax	1620			1,955	70
	Payroll Deductions Payable- F.I.C.A.	1620			906	25
	Payroll Deductions Payable- Hosp. Ins.	1620			480	00
	Cash	1501			15,142	20
	Appropriation and Expenditure Ledger Detail:					
	Acct.# Title Amount					
	110 Administration $ 715.00	110				
	211 Principals 1,153.00	211				
	212 Supervisors 769.00	212				
	213 Teachers 778.00	213				
	214 Librarian 307.00	214				
	215 Clerks 307.00	215				
	216 Teacher Assistants 288.00	216				
	410 Nurse 146.00	410				
	610 Oper. of Plant (Custodians) 769.00	610				
	$5,232.00					
	To record payroll for July 14, 1966					

including the preparation of the individual checks to be distributed to the employees. Journal entry No. 14 reflects the summary total of the payroll. It is necessary to liquidate the encumbrances for that portion of each payroll covering current fiscal year salaries from the total amount of the salaries encumbered for the current fiscal year; therefore, there is a series of transactions recorded on the 14th to show the liquidation of these encumbrances. In addition, a third transaction must be recorded on the 14th to show the immediate payment to the U.S. Treasury of the Federal income tax withheld from employees. Note in this transaction that the Payroll Deductions Payable (to Federal income tax) account is debited, which eliminates the liability; the Cash account is credited because there has been a reduction in the asset Cash. See pages 90, 92, and 94 for the posting of the first journal entry to the General Ledger accounts and pages 97 to 103 for the posting to the Appropriation and Expenditure Ledger accounts. See pages 93 and 94 for the posting of the second July 14 journal entry to the General Ledger accounts, and pages 90 and 92 for the posting of the third July 14 journal entry to the General Ledger accounts.

15. Transaction No. 15 is separate from and independent of the payment procedure just illustrated in transaction No. 14. This transaction illustrates the journal entry required to pay the Payroll Deductions Payable (Retirement) shown on the balance sheet at the close of the fiscal year, and in addition the payment of an equal amount by the school district as the school district's contribution to the retirement fund. Therefore, a compound journal entry is made showing a debit to the Payroll Deductions Payable account, a debit to the Fund Balance account, and a credit to the Cash account in the amount of $12,723. See pages 90, 92, and 93 for the posting of the journal entry to the General Ledger accounts. In the preceding fiscal year no entry was made for Employer's Contribution to Retirement for the month of June. To correct this error, the bookkeeper must debit Fund Balance rather than Expenditures, since expenditures are limited to proper charges against the current year's budget.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 14	Reserve for Encumbrances	2011	5,232	00		
	Encumbrances	2060			5,232	00
	To liquidate encumbrance for payroll					
	of July 14 use same Appropriation					
	and Expenditure ledger detail as					
	above					
14	Payroll deductions payable	1620	1,955	70		
	Cash	1501			1,955	70
	To record payment to U.S. Treasury of					
	employees' income tax withheld - July					
	14 payroll					
15	Payroll Deductions Payable	1620	6,361	50		
	Fund Balance	2010	6,361	50		
	Cash	1501			12,723	00
	To pay State retirement system the					
	employees' retirement deductions and					
	the school district's share. The					
	total was outstanding at the end of					
	the preceding fiscal year.					

16. This transaction records the receipt of Cash. Therefore, the Cash account is debited to record the increase. The balancing credit entry is made to the Revenue control account and also to the detail account in the subsidiary Revenue Ledger. See pages 90 and 93 for the posting of the journal entry to the General Ledger accounts and page 95 for the posting to the subsidiary Revenue Ledger account.

17. This transaction illustrates the journal entry necessary to repay the Note Payable owed to the bank, and, again, a compound entry is required. To remove the liability, the Note Payable account is debited in the amount of $20,000 and the expense of the interest is recorded as a debit to the Expenditures control account in the amount of $16.40. The detail is posted to the Appropriation and Expenditure Ledger. Note that this expense was not provided for in the budget and will have to be adjusted later. The Cash account is credited for the total amount, $20,016.40. See pages 90, 92, and 94 for the posting of the journal entry to the General Ledger accounts and page 105 for the posting to the Appropriation and Expenditure Ledger account.

18. This transaction illustrates the method of encumbering two purchase orders at the same time. The Encumbrance account and the Reserve for Encumbrances account are debited and credited, respectively, for a total of $600. However, in the Appropriation and Expenditure Ledger where the amounts are obligated, two separate accounts are maintained. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 101 for the posting to the Appropriation and Expenditure Ledger accounts.

19. This is an example of a direct expenditure and reflects the practice often found in small and intermediate school districts where

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 16	Cash	1501	84,010	00		
	Revenue	2030			84,010	00
	Revenue Ledger detail:					
	Taxation and Approps. Rev. - $84,010.00	11				
	To record receipt of local taxes					
17	Note Payable	1611	20,000	00		
	Expenditures	2050	16	40		
	Cash	1501			20,016	40
	Appropriation and Expenditure Ledger detail:					
	Interest on Current Loans $16.40	840				
	To record payment of note and interest					
	to the National Bank					
18	Encumbrances	2060	600	00		
	Reserve for Encumbrances	2011			600	00
	Appropriation and Expenditure Ledger detail:					
	Textbooks $420.00	220				
	Teaching Supplies 180.00	240				
	To record issue of Purchase Orders					
	numbered 103 and 104					
19	Expenditures	2050	97	00		
	Cash	1501			97	00
	Appropriation and Expenditure Ledger detail:					
	Utilities Except Heat $97.00	640				
	To record payment of June telephone					
	bill.					

fluctuating utility costs such as those for telephone service are not encumbered but rather are paid for directly when the invoice is received. This item should have been accrued. The Expenditures control account No. 2050 is debited for the full amount, $97, the Cash account is credited to show the payment of the bill, and the detail is entered in the Appropriation and Expenditure Ledger. See pages 90 and 94 for the posting of the journal entry to the General Ledger accounts and page 103 for the posting to the Appropriation and Expenditure Ledger account.

As a practical matter, a warrant is not prepared every time an invoice is received. Normally, invoices will accumulate, and corresponding warrants will be prepared for approval at a specific school board meeting. At any point from the time the purchase order is issued to the time of payment, the financial records reflect the burden—first in an encumbrance and finally in an expenditure entry. Thus, if considerable time should elapse between receipt of an invoice and preparation of the warrant, the records would still show the encumbrance. However, when a direct expenditure is made for which there has not been an encumbrance, any delay in preparation of the warrant would mean that the appropriate record would not reflect this claim against its balance.

Accounts payable are used to preclude the above-mentioned possibility. For example, transaction No. 19 should be handled as follows:

Transaction: Invoice is received for June telephone bill, $97.00
Debit: Expenditures........................ $97.00
Credit: Accounts Payable.............. $97.00
Appropriation and Expenditure Ledger detail:
Utilities Except Heat...................... $97.00
To record receipt of June telephone bill and establish accounts payable

The entry on page 76 places this transaction "on the books" for the first time. Any financial statements made between the time this is recorded and the time the bill is paid would therefore reflect accurately the financial condition of the school district.

When the warrant is prepared for payment, the following entry is made:

Debit: Accounts Payable	$97.00	
Credit: Cash		$97.00
Paid the June telephone bill		

The entry above removes the liability. Again, the advantage of using accounts payable for direct expenditures is in avoiding gaps which might distort the financial position as shown by the financial records.

There is an important distinction between accounts payable and encumbrances. Encumbrances may represent actual amounts based on quotations or contracts, but they may also represent estimated amounts for goods and/or services. Accounts payable, on the other hand, always represent actual amounts based on receipt of the goods and/or services and an invoice whose accuracy has been verified. Accounts payable may also be used to consolidate payments, that is, instead of processing one small warrant for payment, if it is known there will be others from the same vendor following, payment may be delayed until the others have been received and then one lump-sum payment made. Any statement of unexpended balances prepared in the interim, however, will correctly reflect all the expenditures which have been made, whether or not the warrant has been written.

20. Here is another example of direct expenditures which are not normally encumbered—the payment of miscellaneous traveling expenses to various members of the staff. The Expenditures control account is debited and the Cash account is credited to show the reduction in Cash. The detail is posted to the appropriate account in the Appropriation and Expenditure Ledger. See pages 90 and 94 for the posting of the journal entry to the General Ledger accounts and page 102 for the posting to the Appropriation and Expenditure Ledger account.

21. At the high school, $18 was spent for office supplies out of the Petty Cash fund. The journal entry here shows the recording of the expenditure by debiting Expenditures and Instruction—Other Expenses, account No. 250, and crediting to the Cash account to show the reduction in Cash. The key to this transaction is that when a check is written it is paid to the custodian of the high school Petty Cash Fund so that the custodian of the fund may cash the check and put the money back into the Petty Cash Fund. This is a method of reimbursing the Petty Cash Fund, and it does not change the balance sheet total of Petty Cash. See pages 90 and 94 for the posting of the journal entry to the General Ledger accounts, and page 102 for the posting to the Appropriation and Expenditure Ledger account.

22. This transaction is included to illustrate that the cost of transporting goods from the manufacturer to the school district is normally considered a cost of the goods. Therefore, the total of the invoice $390.50 is charged to the Expenditure control account as a debit and to the Textbooks account as a debit in the Appropriation and Expenditure Ledger. A credit is entered in the Cash account for the same amount. An additional journal entry is required at this point for the same transaction in order to liquidate the encumbrance of purchase order No. 103 both from the control accounts of Encumbrances and Reserve for Encumbrances as well as to show the

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 20	Expenditures	2050	38	00		
	Cash	1501			38	00
	Appropriation and Expenditure Ledger detail:					
	Instruction - Other Expenses $38.00	250				
	To record payment of travel expenses					
	to Miss Smith					
21	Expenditures	2050	18	00		
	Cash	1501			18	00
	Appropriation and Expenditure Ledger detail:					
	Instruction - Other Expenses $18.00	250				
	To reimburse high school Petty Cash					
	Fund					
22	Expenditures	[illegible]50	390	50		
	Cash	1501			390	50
	Appropriation and Expenditure Ledger detail:					
	Textbooks $390.50	220				
	To pay School Book Co. per invoice,					
	includes transportation charge of					
	$12.50, Purchase Order No. 103					
22	Reserve for Encumbrances	2011	420	00		
	Encumbrances	2060			420	00
	Appropriation and Expenditure Ledger detail:					
	Textbooks $420.00	220				
	To liquidate encumbrance of Purchase					
	Order No. 103					

liquidation of the encumbrance in the individual Appropriation and Expenditure Ledger account. This is done in the same way as it has been done in previous transactions by debiting the Reserve for Encumbrances account and crediting the Encumbrances account. See pages 90 and 94 for the posting of the first journal entry to the General Ledger accounts and page 101 for the posting to the Appropriation and Expenditure Ledger account. See pages 93 and 94 for the posting of the second July 22 journal entry to the General Ledger accounts and page 101 for the posting to the Appropriation and Expenditure Ledger account.

23. This transaction illustrates the method of exchanging one asset for another as previously discussed in chapter II. Here the treasurer of the school district buys $50,000 worth of 90-day Treasury bills; therefore, the asset Investments is increased by $50,000 by debiting the Investments account and the asset Cash is decreased by a like amount by crediting the Cash account. See pages 90 and 91 for the posting of the journal entry to the General Ledger accounts.

24. The journal entry for this transaction illustrates the method of liquidating the encumbrance for the teacher's salary upon the resignation of Miss Jones. This liquidation must be accomplished both in the control accounts Reserve for Encumbrances and Encumbrances as well as the Appropriation and Expenditure Ledger account, Teachers' Salary, No. 213. If this type of transaction occurs during the school year, that is, after the payrolls have been paid for several months, the amount which would be liquidated should be only the balance remaining to be paid to the teacher in the contract year. For example, if the teacher resigned at the end of January, the school district will have already paid that teacher half of her salary, $2,500, and the only outstanding or encumbered amount remaining on the books would be an additional $2,500 and this would be the amount to liquidate. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 99 for the posting to the Appropriation and Expenditure Ledger account.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 23	Investments	1550	50,000	00		
	Cash	1501			50,000	00
	To record purchase of 90-day Treasury					
	Bills due October 22, 1966, @ 3.53%					
24	Reserve for Encumbrances	2011	5,000	00		
	Encumbrances	2060			5,000	00
	Appropriation and Expenditure Ledger detail					
	Teachers Salaries $5,000.00	213				
	To record resignation of Miss Jane					
	Jones					

25. This transaction is included to illustrate the type of emergency repair bill that often comes up in the normal operation of a school district. It was assumed in this particular transaction that some damage such as broken windows was the result of the hailstorm and that the school district immediately had a local contractor replace the broken windows. The journal entry for this transaction was a debit to the Expenditure control account and a credit to the Cash account to record the paying out of the cash. The detail is recorded in the Appropriation and Expenditure Ledger. See pages 90 and 94 for the posting of the journal entry to the General Ledger accounts and page 104 for the posting to the Appropriation and Expenditure Ledger account.

26. This transaction demonstrates a rather common practice in dealing with vendors; that is, a discount is often given if an invoice is paid within 10 days. The board of school directors and the administration of a school district should be encouraged by the person keeping the financial records to take advantage of these cash discounts. The actual journal entry is routine in that the Expenditure control account is debited to record the increase in Expenditure and the Cash account is credited to indicate the payment of the invoice. The detail is posted to the Teaching Supplies account, No. 240, in the Appropriation and Expenditure Ledger. See pages 90 and 94 for the posting of the first journal entry to the General Ledger accounts and page 101 for the posting to the Appropriation and Expenditure Ledger account.

26. A second journal entry is required for transaction No. 26 in order to liquidate the encumbrance created by purchase order No. 104 in transaction No. 18. Here again the control account as well as the individual Appropriation and Expenditure Ledger account must show the proper transaction. The Reserve for Encumbrances account is debited, the Encumbrances account is credited, and the obligation is liquidated in the Teaching Supplies account, No. 240, in the Appropriation and Expenditure Ledger. See pages 93 and 94 for the posting of the second July 26 journal entry to the General Ledger accounts and page 101 for the posting to the Appropriation and Expenditure Ledger account.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 25	Expenditures	2050	156	00		
	Cash	1501			156	00
	Appropriation and Expenditure Ledger detail:					
	Maintenance, Contracted Services $156.00	720				
	To record payment of emergency re-					
	pairs, hailstorm - Lichtenberger's					
	Elementary school.					
26	Expenditures	2050	176	40		
	Cash	1501			176	40
	Appropriation and Expenditure Ledger detail:					
	Teaching Supplies $176.40	240				
	To record payment of invoice from					
	School Supply Co. of $180.00, 2%					
	10 days.					
26	Reserve for Encumbrances	2011	180	00		
	Encumbrances	2060			180	00
	Appropriation and Expenditure Ledger detail:					
	Teaching Supplies $180.00	240				
	To record liquidation of encumbrance,					
	Purchase Order No. 104.					

27. This transaction records the hiring of a new teacher, Miss Mary Moore, to take the place of the teacher who resigned, Miss Jane Jones. Note that the new contract salary must be encumbered in the same manner as a salary is at the beginning of the year; therefore, there is a debit to the Encumbrances account of $5,400, a credit to the Reserve for Encumbrances account for the same amount, and the Teachers' Salary account No. 213 is encumbered in like manner. If this teacher were hired later in the year, the amount to be encumbered would be only the amount which the teacher was going to be paid for the rest of the contract year. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 99 for the posting to the Appropriation and Expenditure Ledger account.

28. This transaction is similar in detail to transaction No. 14 posting the payroll totals. The second and third transactions for No. 28 in which the salary for that period is liquidated by debiting the Reserve for Encumbrances account and crediting the Encumbrances account and the payment of the Federal income tax withheld to the U.S. Treasury, follow the same format as described on the 14th payroll. One addition is made to transaction No. 28 so that the State Retirement Board will now be paid the deductions withheld from employees for the current month plus the school district's retirement contribution. Please note that the Payroll Deductions Payable for retirement in the amount of $1,945.70 is the sum of

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 27	Encumbrance	2060	5,400	00		
	Reserve for Encumbrances	2011			5,400	00
	Appropriation and Expenditure Ledger detail:					
	Teachers Salaries $5,400.00	213				
	To encumber contract of Miss Mary Moore					
28	Salaries Payable	1605	14,225	00		
	Expenditure	2050	5,232	00		
	Payroll Deductions Payable- Retirement	1620			972	85
	Payroll Deductions Payable- Fed.Inc.Tax	1620			1,955	70
	Payroll Deductions Payable- F.I.C.A.	1620			906	25
	Payroll Deductions Payable- Hosp. Ins.	1620			480	00
	Cash	1501			15,142	20
	Appropriation and Expenditure Ledger detail:					
	Acct.# Title Amount					
	110 Administration $ 715.00	110				
	211 Principals 1,153.00	211				
	212 Supervisors 769.00	212				
	213 Teachers 778.00	213				
	214 Librarian 307.00	214				
	215 Clerks 307.00	215				
	216 Teacher Assistants 288.00	216				
	410 Nurse 146.00	410				
	610 Oper. of Plant (Custodians) 769.00	610				
	$5,232.00					
	To record payment of July 28, 1966					
	payroll					

$972.85 withheld on the 14th payroll and the same amount withheld on the 28th payroll. Following the same procedure as in transaction No. 15 where the Payroll Deductions Payable for the preceding year were paid, a compound entry is used. The debit entries are to the Payroll Deductions Payable and Employers Retirement Contributions accounts, each in the amount of $1,945.70, and the credit entry is to the Cash account for the sum of both, $3,891.40. See pages 90, 92, and 94 for the posting of the first journal entry to the General Ledger accounts and pages 97 to 103 for the posting to the Appropriation and Expenditure Ledger accounts. See pages 93 and 94 for the posting of the second July 28 journal entry to the General Ledger accounts, and pages 90 and 92 for the posting of the third July 28 journal entry to the General Ledger accounts. See pages 90, 92, and 94 for the posting of the fourth July 28 journal entry to the General Ledger accounts, and page 105 for the posting to the Appropriation and Expenditure Ledger account.

29. This transaction shows the journal entries for a contract awarded to an architectural company for the design of a new building. It is treated just as any other contract or purchase order by having a debit to the Encumbrances account and a credit to the Reserve for Encumbrances account, and entering the obligation in the Encumbrances column of the Appropriation and Expenditure Ledger account, Capital Outlay for Buildings, No. 1220. This procedure is often used in the initial stages of developing a new school building. At a later time when bonds are sold to finance the construction, the General Fund of the school district is reimbursed for expenses such as architectural fees. See pages 93 and 94 for the posting of the journal entry to the General Ledger accounts and page 106 for the posting to the Appropriation and Expenditure Ledger account.

30. This transaction represents a payment to the school district by the insurance company of a portion of the hailstorm damage. Since

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 28	Reserve for Encumbrances	2011	5,232	00		
	Encumbrances	2060			5,232	00
	To liquidate encumbrances for payroll					
	of July 28, use same Appropriation					
	and Expenditure Ledger detail as pre-					
	vious entry.					
28	Payroll deductions payable	1620	1,955	70		
	Cash	1501			1,955	70
	To record payment to U.S. Treasury of					
	employees income tax withheld - July					
	28 payroll					
28	Payroll Deductions Payable	1620	1,945	70		
	Expenditures	2050	1,945	70		
	Cash	1501			3,891	40
	Appropriation and Expenditure Ledger detail:					
	Empl. Retirement Contribution- $1,945.70	810				
	To record payment of employee deduc-					
	tions and employer retirement contri-					
	bution to State					
29	Encumbrance	2060	8,000	00		
	Reserve for Encumbrances	2011			8,000	00
	Appropriation and Expenditure Ledger detail:					
	Capital Outlay - Buildings $8,000.00	1220				
	To record contract with AIA					
	Architectural Co.					
30	Cash	1501	106	00		
	Expenditures	2050			106	00
	Appropriation and Expenditure Ledger detail:					
	Maintenance - Cont. Svcs. $106.00	720				
	To record receipt of insurance adjustment					

cash is received and the asset is increased, the Cash account is debited. Note, however, that the credit is to the Expenditure control account and the appropriate detail account rather than to a miscellaneous revenue account. The principle behind this credit entry, which is called an *Abatement*, is that such an expenditure was not a normally budgeted item and that, therefore, the money received in the insurance adjustment should be made available again for maintenance to be spent for the originally budgeted purpose. See pages 90 and 94 for the posting of the journal entry to the General Ledger accounts and page 104 for the posting to the Appropriation and Expenditure Ledger account.

31. This transaction shows how to make the journal entry when some of the school district's investments mature. In this case, the school district had paid $9,912.50 for some 90-day Treasury bills at 3½ percent interest. They received $10,000 in cash, the difference being the earned interest. Since the cash is being returned to the school district, this is an increase in one asset and a decrease in another. The Cash account is debited for the full amount of $10,000, the Investments account is credited to show the decrease of $9,912.50 in the amount of the investment asset, and the additional amount of $87.50 is credited to the Revenue control account and the detail is entered in the subsidiary Revenue Ledger. See pages 90, 91, and 93 for the posting of the journal entry to the General Ledger accounts and page 96 for the posting to the Revenue Ledger accounts.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 31	Cash	1501	10,000	00		
	Investments	1550			9,912	50
	Revenue	2030			87	50
	Revenue Ledger detail:					
	Other revenue from local sources $87.50	14				
	To record maturity of 90-day Treasury					
	bills a 3.5% interest rate					

To keep the ledger accounts current, the entries in the journal are posted promptly. This practice distributes the work more evenly, and all of the posting does not have to be done at one time. On the next several pages are all of the accounts of the General Ledger, Revenue Ledger, and the Appropriation and Expenditure Ledger. The first account in each Ledger is shown on a full page to show that, in reality, ledger sheets are full page; however, to save space, several ledger accounts are shown on one page elsewhere in this manual. Immediately following the illustrated accounts, the trial balance is taken again to assure that for every debit there was a credit and that the financial books of the school district are in balance.

GENERAL LEDGER

Page 1

Account Cash

Account # 1501

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Previous bal.	J1	69,445	55	1966 July	3	Payment to vendors	J4	3,673	25
	5	Tuition from other Schl. Dists	J5	675	00		10	Pay XYZ Hardware Co.	J7	48	50
	8	Loan from Nat'l. Bank	J6	20,000	00		11	3 year Insur. Premium	J7	1,800	00
	13	Rev from State Sources	J8	25,338	00		12	Issue Petty Cash	J8	25	00
	16	Receipt of Local Taxes	J10	84,010	00		14	Payroll	J8	15,142	20
	30	Receipt of Ins. Adjustment	J15	106	00		14	Payroll ded. Fed. Inc. Tax	J9	1,955	70
	31	Mat. of 90 day Treas. bill	J16	10,000	00		15	Payroll ded. Retirement	J9	12,723	00
		82,325.30		209,574	55		17	Pay note & Int. to Nat'l. Bank	J10	20,016	40
							19	June telephone bill	J10	97	00
							20	Travel expense Miss Smith	J11	38	00
							21	Reimb. H.S. Petty cash fund	J11	18	00
							22	Textbooks	J11	390	50
							23	90 day Treas. Bill	J12	50,000	00
							25	Emerg. repair Lich Elem. Sch.	J13	156	00
							26	Pay School Supply Co.	J13	176	40
							28	Payroll	J14	15,142	20
							28	Payroll ded Fed. Inc. Tax	J15	1,955	70
							28	Payroll ded. Retirement	J15	3,891	40
										127,249	25

GENERAL LEDGER

Page 1

Account Petty Cash

Account # 1510

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beg. Balance	J1	400	00						
	12	Issue Petty Cash to H. S. Prin.	J8	25 425	00 00						

GENERAL LEDGER

Page 1

Account Prepaid Expense

Account # 1530

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beg. Balance	J1	3,000	00						
	11	Ins. policy for the fol. 2 FY's	J7	1,200 4,200	00 00						

GENERAL LEDGER

Page 1

Account Accounts Receivable

Account # 1540

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beg. Balance	J1	3,652	15						

GENERAL LEDGER

Page 1

Account Investments

Account # 1550

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beg. Balance	J1	24,847	20	1966 July	31	90-day Treas. bills matured	J16	9,912	50
	23	Purchased 90-day Treas. bill 64,934.70	J12	50,000 74,847	00 20						

GENERAL LEDGER

Page 1

Account Salaries Payable — Account # 1605

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	14	1st summer payroll	J8	14,225	00	1966 July	1	Beg. Balance 28,450.00	J1	56,900	00
	28	2nd summer payroll	J14	14,225 28,450	00 00						

GENERAL LEDGER

Page 1

Account Accounts payable - Vendors — Account # 1610

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	13	Pay off vendors	J4	3,673	25	1966 July	1	Beg. Balance	J1	3,673	25

GENERAL LEDGER

Page 1

Account Notes Payable — Account # 1611

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	17	Pay National Bank	J10	20,000	00	1966 July	8	Loan from National Bank	J6	20,000	00

GENERAL LEDGER

Page 1

Account Payroll Deductions Payable — Account # 1620

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	14	Pay inc. tax withheld	J9	1,955	70	1966 July	1	Beg. Balance	J1	6,361	50
	15	Pay employee retirement deds.	J9	6,361	50		14	Retirement	J8	972	85
	28	Pay inc. tax withheld	J15	1,955	70		14	Fed. Inc. Tax	J8	1,955	70
	28	Pay employee retirement deds.	J15	1,945 12,218	70 60		14	F.I.C.A.	J8	906	25
							14	Hospital Ins.	J8	480	00
							28	Retirement	J14	972	85
							28	Fed. Inc. Tax	J14	1,955	70
							28	F.I.C.A.	J14	906	25
							28	Hospital Ins. 2,772.50	J14	480 14,991	00 10

GENERAL LEDGER

Page 1

Account Fund Balance

Account # 2010

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Set up appropriation account	J3	639,930	00	1966 July	1	Beg. balance	J1	34,410	15
	15	Sch. Dist's contr to Retirement	J9	6,361	50		1	Set up Est. Rev. account	J2	610,520	00
				646,291	50		4	Revise est. revenue	J5	2,500	00
								1,138.65		647,430	15

GENERAL LEDGER

Page 1

Account Reserve for Encumbrances

Account # 2011

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	6	Liq. P.O. #101	J5	5	00	1966 July	1	Encumber all salaries	J4	505,900	00
	10	Liq. P.O. #102	J7	50	00		2	Encumber P.O. #101	J4	5	00
	14	Liq. July 14 payroll	J9	5,232	00		7	Encumber P.O. #102	J6	50	00
	22	Liq. P.O. #103	J11	420	00		9	Contract with Hill & Dale Co.	J6	4,150	00
	24	Liq. Miss Jones salary encum.	J12	5,000	00		18	Encumber P.O. # 103 & 104	J10	600	00
	26	Liq. P.O. #104	J13	180	00		27	Encumber Miss Moore's salary	J14	5,400	00
	28	Liq. July 28 payroll	J15	5,232	00		29	Encum. Cont. AIA Arch. Co.	J15	8,000	00
				16,119	00			507,986.00		524,105	00

GENERAL LEDGER

Page 1

Account Estimated Revenue

Account # 2020

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Set up Est. Rev. account	J2	610,520	00						
	4	Set up revised Rev. Est.	J5	2,500	00						
				613,020	00						

GENERAL LEDGER

Page 1

Account Revenue

Account # 2030

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
						1966 July	5	PVO School District	J5	675	00
							13	Monthly State apprp.	J8	25,338	00
							16	Receipt of local taxes	J10	84,010	00
							31	Int. on 90-day Treas. Bill	J16	87	50
										110,110	50

GENERAL LEDGER

Page 1

Account Appropriations　　Account # 2040

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
						1966 July	1	Set up Appropriations Acct.	J3	639,930	00

GENERAL LEDGER

Page 1

Account Expenditures　　Account # 2050

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	10	Pay XYZ Hardware Company	J7	48	50	1966 July	30	Insurance Adj. fr Cong Ins Ag	J15	106	00
	11	Insurance and Judgments	J7	600	00						
	14	July 14th payroll	J8	5,232	00						
	17	Interest on Loan - Nat'l. Bank	J10	16	40						
	19	June Telephone bill	J10	97	00						
	20	Travel expense Miss Smith	J11	38	00						
	21	Reimburse H.S. Petty Cash	J11	18	00						
	22	Pay School Book Co.	J11	390	50						
	25	Emer. Repairs to Lich. Elem. Sch.	J13	156	00						
	26	Pay School Supply Co.	J13	176	40						
	28	July 28th payroll	J14	5,232	00						
	28	Retirement Fund	J15	1,945	70						
		13,844.50		13,950	50						

GENERAL LEDGER

Page 1

Account Encumbrances　　Account # 2060

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Salaries for all personnel	J4	505,900	00	1966 July	6	Liq. P.O. #101	J5	5	00
	2	Other Expenses-Opr. P.O. #101	J4	5	00		10	Liq. P.O. #102	J7	50	00
	7	Cont. Sucs. P.O. #102	J6	50	00		14	Liq. July 14 payroll	J9	5,232	00
	9	Pupil Tran. (Hill & Dale cont)	J6	4,150	00		22	Liq. P.O. #103	J11	420	00
	18	Textbks & Supls. (P.O. 103 & 104)	J10	600	00		24	Liq. Sal enc. (Miss Jones)	J12	5,000	00
	27	Teacher Salary (Miss Moore)	J14	5,400	00		26	Liq. P.O. #104	J13	180	00
	29	Cap. Outlay-Sal. AIA Arch. Co.	J15	8,000	00		28	Liq. July 28 payroll	J15	5,232	00
		507,986.00		524,105	00					16,119	00

REVENUE LEDGER

Account # 11 Page 1

Account Description Revenue from Local Sources Taxation and Appropriations Received

DATE	REF.	ESTIMATED REVENUE		ACTUAL REVENUE		TOTAL REVENUE TO DATE		BALANCE	
1966 July 1	J2	353,270	00					353,270	00
16	J10			84,010	00	84,010	00	269,260	00

REVENUE LEDGER

Account # 14

Page 1

Account Description Other Revenue from Local Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	300 00			300 00
4	J5	2,500 00			2,800 00
31	J16		87 50	87 50	2,712 50

REVENUE LEDGER

Account # 20

Page 1

Account Description Revenue from Intermediate Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	220 00			220 00

REVENUE LEDGER

Account # 30

Page 1

Account Description Revenue from State Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	253,380 00			253,380 00
13	J8		25,338 00	25,338 00	228,042 00

REVENUE LEDGER

Account # 40

Page 1

Account Description Revenue from Federal Sources

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	2,000 00			2,000 00

REVENUE LEDGER

Account # 80

Page 1

Account Description Revenue from Other School Districts in State

DATE	REF.	ESTIMATED REVENUE	ACTUAL REVENUE	TOTAL REVENUE TO DATE	BALANCE
1966 July 1	J2	1,350 00			1,350 00
5	J5		675 00	675 00	675 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 110 Page 1

Account Description Administration - Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	18,600 00							18,600 00
1	J4	18,600 00	18,600 00		18,600 00			18,600 00	0 00
14	J8	18,600 00			18,600 00	715 00	715 00	19,315 00	/715 00/
14	J9	18,600 00		715 00	17,885 00		715 00	18,600 00	0 00
28	J14	18,600 00			17,885 00	715 00	1,430 00	19,315 00	/715 00/
28	J15	18,600 00		715 00	17,170 00		1,430 00	18,600 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 120

Page 1

Account Description Administration - Contracted Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	250 00							250 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 130

Page 1

Account Description Administration - Other Expense

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	300 00							300 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 211

Page 1

Account Description Instruction - Principals Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	30,000 00							30,000 00
1	J4	30,000 00	30,000 00		30,000 00			30,000 00	0 00
14	J8	30,000 00			30,000 00	1,153 00	1,153 00	31,153 00	/1,153 00/
14	J9	30,000 00		1,153 00	28,847 00		1,153 00	30,000 00	0 00
28	J14	30,000 00			28,847 00	1,153 00	2,306 00	31,153 00	/1,153 00/
28	J15	30,000 00		1,153 00	27,694 00		2,306 00	30,000 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Page 1

Account # 212

Account Description *Instruction - Supervisors Salaries*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES OBLIGATE	ENCUMBRANCES LIQUIDATE	TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
1966 July 1	J3	20,000 00							20,000 00
1	J4	20,000 00	20,000 00		20,000 00			20,000 00	0 00
14	J8	20,000 00			20,000 00	769 00	769 00	20,769 00	/769 00/
14	J9	20,000 00		769 00	19,231 00		769 00	20,000 00	0 00
28	J14	20,000 00			19,231 00	769 00	1,538 00	20,769 00	/769 00/
28	J15	20,000 00		769 00	18,462 00		1,538 00	20,000 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Page 1

Account # 213

Account Description *Instruction - Teachers Salaries*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES OBLIGATE	ENCUMBRANCES LIQUIDATE	TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
1966 July 1	J3	390,000 00							390,000 00
4	J4	390,000 00	390,000 00		390,000 00			390,000 00	0 00
14	J8	390,000 00			390,000 00	778 00	778 00	390,778 00	/778 00/
14	J9	390,000 00		778 00	389,222 00		778 00	390,000 00	0 00
24	J12	390,000 00		5,000 00	384,222 00		778 00	385,000 00	5,000 00
27	J14	390,000 00	5,400 00		389,622 00		778 00	390,400 00	/400 00/
28	J14	390,000 00			389,622 00	778 00	1,556 00	391,178 00	/1,178 00/
28	J15	390,000 00		778 00	388,844 00		1,556 00	390,400 00	/400 00/

APPROPRIATION AND EXPENDITURE LEDGER

Account # 214

Page 1

Account Description Instruction - Librarian Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	8,000 00							8,000 00
1	J4	8,000 00	8,000 00		8,000 00			8,000 00	0 00
14	J8	8,000 00			8,000 00	307 00	307 00	8,307 00	[307 00]
14	J9	8,000 00		307 00	7,693 00		307 00	8,000 00	0 00
28	J14	8,000 00			7,693 00	307 00	614 00	8,307 00	[307 00]
28	J15	8,000 00		307 00	7,386 00		614 00	8,000 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 215

Page 1

Account Description Instruction - Clerks' Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	8,000 00							8,000 00
1	J4	8,000 00	8,000 00		8,000 00			8,000 00	0 00
14	J8	8,000 00			8,000 00	307 00	307 00	8,307 00	[307 00]
14	J9	8,000 00		307 00	7,693 00		307 00	8,000 00	0 00
28	J14	8,000 00			7,693 00	307 00	614 00	8,307 00	[307 00]
28	J15	8,000 00		307 00	7,386 00		614 00	8,000 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 216

Page 1

Account Description Instruction - Teacher Assistants

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	7,500 00							7,500 00
1	J4	7,500 00	7,500 00		7,500 00			7,500 00	0 00
14	J8	7,500 00			7,500 00	288 00	288 00	7,788 00	[288 00]
14	J9	7,500 00		288 00	7,212 00		288 00	7,500 00	0 00
28	J14	7,500 00			7,212 00	288 00	576 00	7,788 00	[288 00]
28	J15	7,500 00		288 00	6,924 00		576 00	7,500 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 220 Page 1

Account Description Instruction - Textbooks

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	2,000 00							2,000 00
18	J10	2,000 00	420 00		420 00			420 00	1,580 00
22	J11	2,000 00			420 00	390 50	390 50	810 50	1,189 50
22	J11	2,000 00		420 00	0 00		390 50	390 50	1,609 50

APPROPRIATION AND EXPENDITURE LEDGER

Account # 230 Page 1

Account Description Instruction - Library Supplies

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	700 00							700 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 240 Page 1

Account Description Instruction - Teaching Supplies

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	1,700 00							1,700 00
18	J10	1,700 00	180 00		180 00			180 00	1,520 00
26	J13	1,700 00			180 00	176 40	176 40	356 40	1,343 60
26	J13	1,700 00		180 00	0 00		176 40	176 40	1,523 60

APPROPRIATION AND EXPENDITURE LEDGER

Account # 250 **Page** 1

Account Description Instruction - Other Expenses

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	500 00							500 00
20	J11	500 00				38 00	38 00	38 00	462 00
21	J11	500 00				18 00	56 00	56 00	444 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 410 **Page** 1

Account Description Health - Nurse's Salary

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	3,800 00							3,800 00
1	J4	3,800 00	3,800 00		3,800 00			3,800 00	0 00
14	J8	3,800 00			3,800 00	146 00	146 00	3,946 00	(146 00)
14	J9	3,800 00		146 00	3,654 00		146 00	3,800 00	0 00
28	J14	3,800 00			3,654 00	146 00	292 00	3,946 00	(146 00)
28	J15	3,800 00		146 00	3,508 00		292 00	3,800 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 420 **Page** 1

Account Description Health, Other Expense

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	200 00							200 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 520 **Page** 1

Account Description Transportation Contract

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	4,150 00							4,150 00
9	J6	4,150 00	4,150 00		4,150 00			4,150 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 610 **Page** 1

Account Description Operation of Plant - Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	20,000 00							20,000 00
1	J4	20,000 00	20,000 00		20,000 00			20,000 00	0 00
14	J8	20,000 00			20,000 00	769 00	769 00	20,769 00	769 00
14	J9	20,000 00		769 00	19,231 00		769 00	20,000 00	0 00
28	J14	20,000 00			19,231 00	769 00	1,538 00	20,769 00	769 00
28	J15	20,000 00		769 00	18,462 00		1,538 00	20,000 00	0 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 630 **Page** 1

Account Description Operation of Plant - Heat

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	6,000 00							6,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 640 **Page** 1

Account Description Operation of Plant - Utilities

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	2,100 00							2,100 00
19	J10	2,100 00				97 00	97 00	97 00	2,003 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 650 **Page** 1

Account Description Operation of Plant - Supplies

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	690 00							690 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 660 Page 1

Account Description Operation of Plant - Other Expense

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	100 00							100 00
2	J4	100 00	5 00		5 00			5 00	95 00
6	J5	100 00		5 00	0 00			0 00	100 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 720 Page 1

Account Description Maintenance of Plant - Contracted Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	3,700 00							3,700 00
7	J6	3,700 00	50 00		50 00			50 00	3,650 00
10	J7	3,700 00			50 00	48 50	48 50	98 50	3,601 50
10	J7	3,700 00		50 00	0 00		48 50	48 50	3,651 50
25	J13	3,700 00				156 00	204 50	204 50	3,495 50
30	J15	3,700 00				[106 00]	98 50	98 50	3,601 50

APPROPRIATION AND EXPENDITURE LEDGER

Account # 730 Page 1

Account Description Maintenance of Plant - Replacement of Equipment

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	1,400 00							1,400 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 810 Page 1

Account Description Fixed Charges - Retirement and FICA

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	45,600 00							45,600 00
28	J15	45,600 00				1,945 70	1,945 70	1,945 70	43,654 30

APPROPRIATION AND EXPENDITURE LEDGER

Account # 820 Page 1

Account Description Fixed Charges - Insurance Premiums

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	2,700 00							2,700 00
11	J7	2,700 00				600 00	600 00	600 00	2,100 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 840 Page 1

Account Description Fixed Charges - Interest on Current Loan

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July17	J10					16 40	16 40	16 40	/16 40/

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1110 Page 1

Account Description Community Services - Recreation

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J3	500 00							500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1130 Page 1

Account Description Community Services - Public Library

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	500 00							500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1220 Page 1

Account Description Capital Outlay - Buildings

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 [illegible]	[illegible]	[illegible]							[illegible]
29	J15	22,000 00	8,000 00		8,000 00			8,000 00	14,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1230 Page 1

Account Description Capital Outlay - Equipment

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3	4,000 00							4,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1310

Page 1

Account Description Debt Service, Principal

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3A	32,000 00							32,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1320

Page 1

Account Description Debt Service, Interest

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3A	2,500 00							2,500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 1410

Page 1

Account Description Outgoing Transfers, Tuition

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J3A	440 00							440 00

Trial balance

Since the Revenue and Expenditures accounts are General Ledger summary accounts, it is good practice to compare the total of each with its respective subsidiary ledger before completing the trial balance. In the subsidiary Appropriation and Expenditure Ledger the entry in the Total Expenditures column of each account should be listed, and the sum of all such entries should equal the balance in the General Ledger account, Expenditures. This is accomplished by preparing a Schedule of Expenditures as shown on page 109.

Please note that accounts without entries are listed; this is done to preclude omitting an account with an entry. The total, $13,844.50, should and does agree with the balance in the Expenditures summary account, page 94. This procedure should be followed for all General Ledger summary accounts.

At this point, it might be well to review the purposes of the trial balance, why and how it is prepared, and what actions might be taken in case the debits and credits do not balance. The trial balance is prepared from the General Ledger. All active accounts in the General Ledger have either a credit balance or a debit balance. To prepare a trial balance, list all active accounts in the General Ledger with their respective balances. Place the debit balances in one vertical column and the credit balances in an adjoining column. After the listing is completed, add the two columns. If all postings have been accurately made, and no errors have been made in computing the balances, the total of the debit and credit columns will be equal

HYPOTHETICAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES
July 31, 1966

Acct. No.	Account Title		
110	Administration, Salaries	$1, 430. 00	
120	Administration, Cont. Svcs		
130	Administration, Other Expenses		
	TOTAL ADMINISTRATION		$1, 430. 00
211	Instruction, Principals' Salaries	2, 306. 00	
212	Instruction, Supervisors' Salaries	1, 538. 00	
213	Instruction, Teachers' Salaries	1, 556. 00	
214	Instruction, Librarian Salaries	614. 00	
215	Instruction, Clerks' Salaries	614. 00	
216	Instruction, Teacher Assistants	576. 00	
220	Instruction, Textbooks	390. 50	
230	Instruction, Library Supplies		
240	Instruction, Teaching Supplies	176. 40	
250	Instruction, Other Expenses	56. 00	
	TOTAL INSTRUCTION		7, 826. 90
410	Health, Nurse's Salary	292. 00	
420	Health, Other Expenses		
	TOTAL HEALTH		292. 00
520	Transportation Contract		
610	Operation of Plant—Salaries	1, 538. 00	
630	Operation of Plant—Heat		
640	Operation of Plant—Utilities	97. 00	
650	Operation of Plant—Supplies		
660	Operation of Plant—Other Expenses		
	TOTAL OPERATION OF PLANT		1, 635. 00
720	Maint. of Plant—Cont. Svcs	98. 50	
730	Maint. of Plant—Repl. of Equip		
	TOTAL MAINTENANCE OF PLANT		98. 50
810	Fixed Charges—Ret. & F.I.C.A	1, 945. 70	
820	Fixed Charges—Insurance Premiums	600. 00	
840	Fixed Charges—Int. on Curr. Loan	16. 40	
	TOTAL FIXED CHARGES		2, 562. 10
1110	Community Services—Recreation		
1130	Community Services—Public Libr		
1220	Capital Outlay—Buildings		
1230	Capital Outlay—Equipment		
1310	Debt Service—Principal		
1320	Debt Service—Interest		
1410	Outgoing Transfers—Tuition		
	TOTAL EXPENDITURES	$13, 844. 50	$13, 844. 50

Checking the trial balance

If the trial balance is not in balance the first time, calculations and postings should be checked back in a logical order. The following order is suggested:

(1) Check all listings in the trial balance to see if the amounts appearing in the General Ledger have been correctly transcribed to the trial balance, and are correctly entered in the debit or credit column as the case may be.

(2) Check calculations of the balances in the General Ledger itself. A credit entry may have been incorrectly added instead of subtracted from some asset or expense account, or some debit entry may have been incorrectly added to some revenue or liability account. It may also be just a plain error in adding or subtracting. If the difference or error is divisible by nine, watch for a transposition of figures.

(3) Check the postings from the General Journal to the General Ledger. A debit may have been posted as a credit or some credit may have been posted as a debit, or the figures may have been posted incorrectly.

(4) If necessary, when the error has not yet been found, recheck the journalizing of the entries into the General Journal of the various transactions; a debit may have been journalized as a credit or some credit may have been journalized as a debit. Remember that every individual journal entry should be in balance.

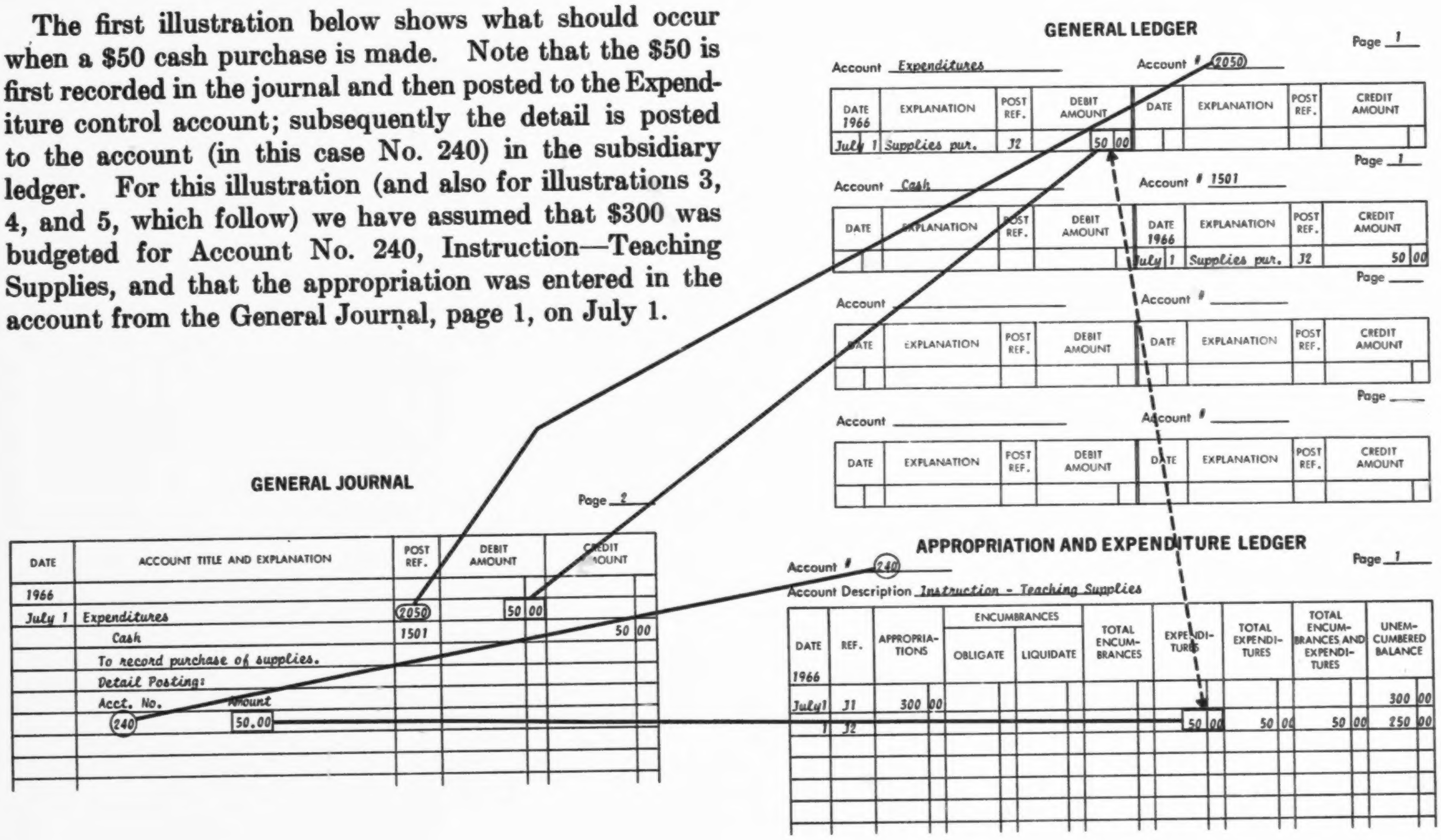
The illustration shows the trial balance taken from the ledger accounts posted in this chapter. It is complete and in balance and will be used in the succeeding chapter in developing the various monthly reports and interim balance sheets customarily prepared.

HYPOTHETICAL SCHOOL DISTRICT
General Fund
Trial Balance
July 31, 1966

Account Title	Acct. No.	Debit		Credit	
Cash	1501	82,325	30		
Petty Cash	1510	425	00		
Prepaid Expense	1530	4,200	00		
Accounts Receivable	1540	3,652	15		
Investments	1550	64,934	70		
Salaries Payable	1605			28,450	00
Payroll Deductions Payable	1620			2,772	50
Fund Balance	2010			1,138	65
Reserve for Encumbrances	2011			507,986	00
Estimated Revenue	2020	613,020	00		
Revenue	2030			110,110	50
Appropriations	2040			639,930	00
Expenditures	2050	13,844	50		
Encumbrances	2060	507,986	00		
		1,290,387	65	1,290,387	65

Illustration 2

The first illustration below shows what should occur when a $50 cash purchase is made. Note that the $50 is first recorded in the journal and then posted to the Expenditure control account; subsequently the detail is posted to the account (in this case No. 240) in the subsidiary ledger. For this illustration (and also for illustrations 3, 4, and 5, which follow) we have assumed that $300 was budgeted for Account No. 240, Instruction—Teaching Supplies, and that the appropriation was entered in the account from the General Journal, page 1, on July 1.



GENERAL LEDGER

Page 1

Account Expenditures Account # 2050

DATE 1966	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
July 1	Supplies pur.	J2	50 00				

Page 1

Account Cash Account # 1501

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE 1966	EXPLANATION	POST REF.	CREDIT AMOUNT
				July 1	Supplies pur.	J2	50 00

Page ____

Account ________ Account # ________

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT

Page ____

Account ________ Account # ________

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT

GENERAL JOURNAL

Page 2

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966				
July 1	Expenditures	2050	50 00	
	Cash	1501		50 00
	To record purchase of supplies.			
	Detail Posting:			
	Acct. No. Amount			
	240 50.00			

APPROPRIATION AND EXPENDITURE LEDGER

Page 1

Account # 240

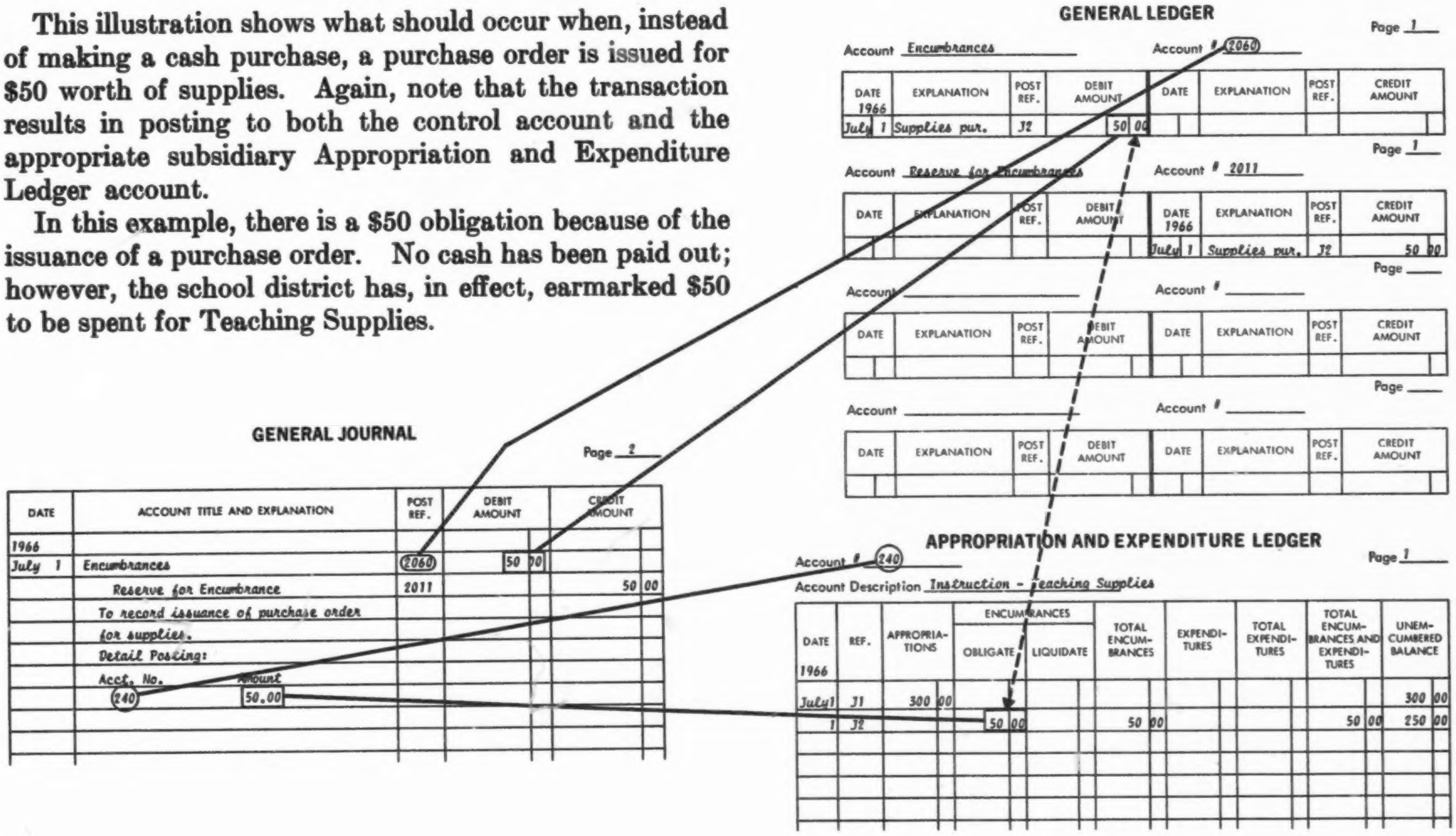
Account Description Instruction - Teaching Supplies

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966									
July 1	J1	300 00							300 00
1	J2					50 00	50 00	50 00	250 00

Illustration 3

This illustration shows what should occur when, instead of making a cash purchase, a purchase order is issued for $50 worth of supplies. Again, note that the transaction results in posting to both the control account and the appropriate subsidiary Appropriation and Expenditure Ledger account.

In this example, there is a $50 obligation because of the issuance of a purchase order. No cash has been paid out; however, the school district has, in effect, earmarked $50 to be spent for Teaching Supplies.



GENERAL JOURNAL

Page 2

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966				
July 1	Encumbrances	2060	50 00	
	Reserve for Encumbrance	2011		50 00
	To record issuance of purchase order			
	for supplies.			
	Detail Posting:			
	Acct. No. Amount			
	240 50.00			

GENERAL LEDGER

Page 1

Account Encumbrances Account # 2060

DATE 1966	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
July 1	Supplies pur.	J2	50 00				

Page 1

Account Reserve for Encumbrances Account # 2011

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE 1966	EXPLANATION	POST REF.	CREDIT AMOUNT
				July 1	Supplies pur.	J2	50 00

Page

Account Account #

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT

Page

Account Account #

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT

APPROPRIATION AND EXPENDITURE LEDGER

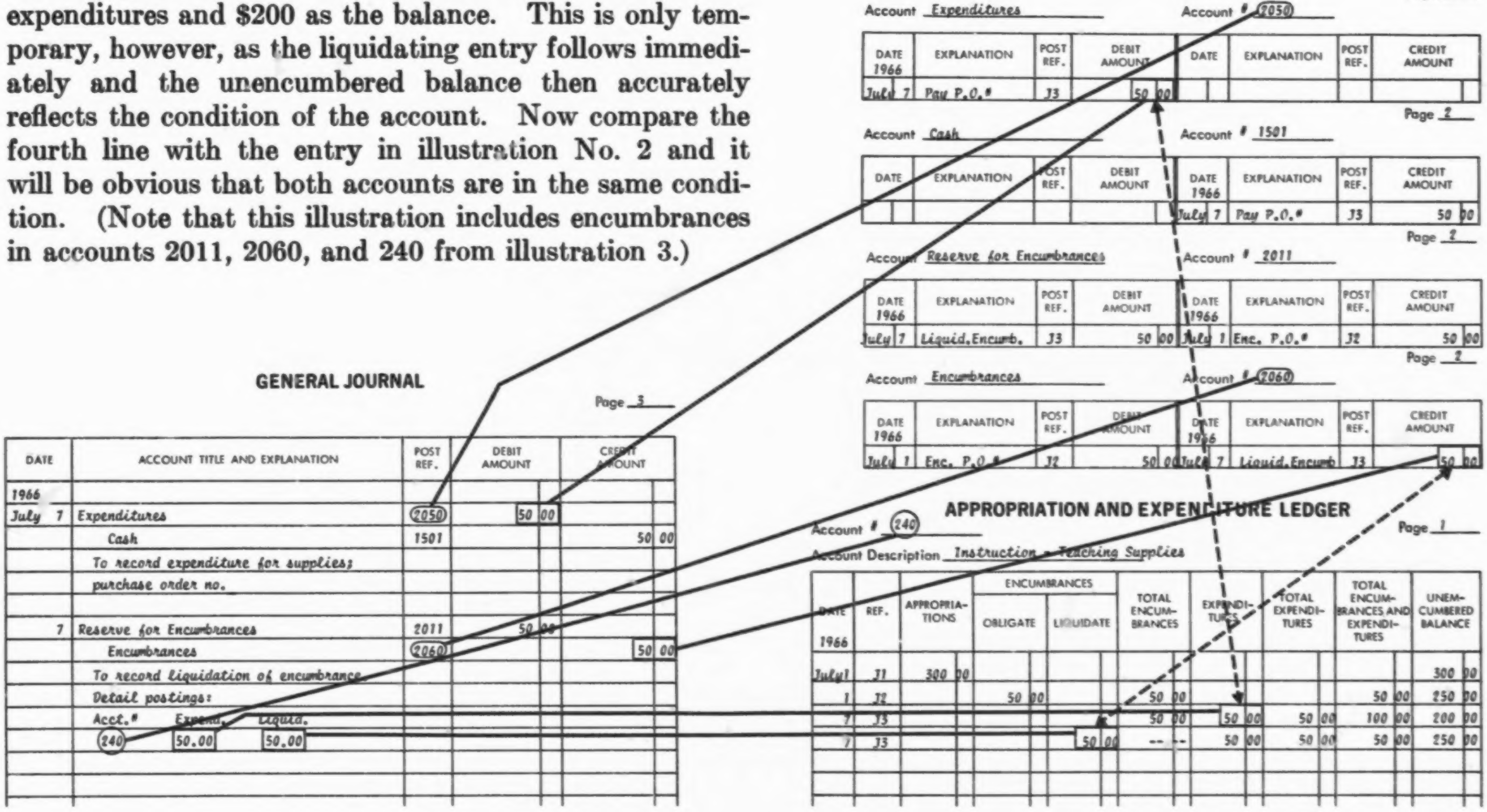
Account # 240 Page 1

Account Description Instruction - Teaching Supplies

DATE 1966	REF.	APPROPRIATIONS	ENCUMBRANCES OBLIGATE	ENCUMBRANCES LIQUIDATE	TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
July 1	J1	300 00							300 00
1	J2		50 00		50 00			50 00	250 00

Illustration 4

As soon as the invoice is received and the bill is paid, an expenditure of $50 is recorded. Note in the third line of the Appropriation and Expenditure Ledger account that the $50 expenditure, when added to the $50 encumbrance, gives $100 as the total of encumbrances and expenditures and $200 as the balance. This is only temporary, however, as the liquidating entry follows immediately and the unencumbered balance then accurately reflects the condition of the account. Now compare the fourth line with the entry in illustration No. 2 and it will be obvious that both accounts are in the same condition. (Note that this illustration includes encumbrances in accounts 2011, 2060, and 240 from illustration 3.)



GENERAL JOURNAL

Page 3

DATE		ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966							
July	7	Expenditures	2050	50	00		
		Cash	1501			50	00
		To record expenditure for supplies;					
		purchase order no.					
	7	Reserve for Encumbrances	2011	50	00		
		Encumbrances	2060			50	00
		To record liquidation of encumbrance					
		Detail postings:					
		Acct.# Expend. Liquid.					
		240 50.00 50.00					

GENERAL LEDGER

Page 2

Account Expenditures Account # 2050

DATE 1966		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
July	7	Pay P.O.#	J3	50	00						

Page 2

Account Cash Account # 1501

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE 1966		EXPLANATION	POST REF.	CREDIT AMOUNT	
						July	7	Pay P.O.#	J3	50	00

Page 2

Account Reserve for Encumbrances Account # 2011

DATE 1966		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE 1966		EXPLANATION	POST REF.	CREDIT AMOUNT	
July	7	Liquid.Encumb.	J3	50	00	July	1	Enc. P.O.#	J2	50	00

Page 2

Account Encumbrances Account # 2060

DATE 1966		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE 1966		EXPLANATION	POST REF.	CREDIT AMOUNT	
July	1	Enc. P.O.#	J2	50	00	July	7	Liquid.Encumb	J3	50	00

APPROPRIATION AND EXPENDITURE LEDGER

Account # 240

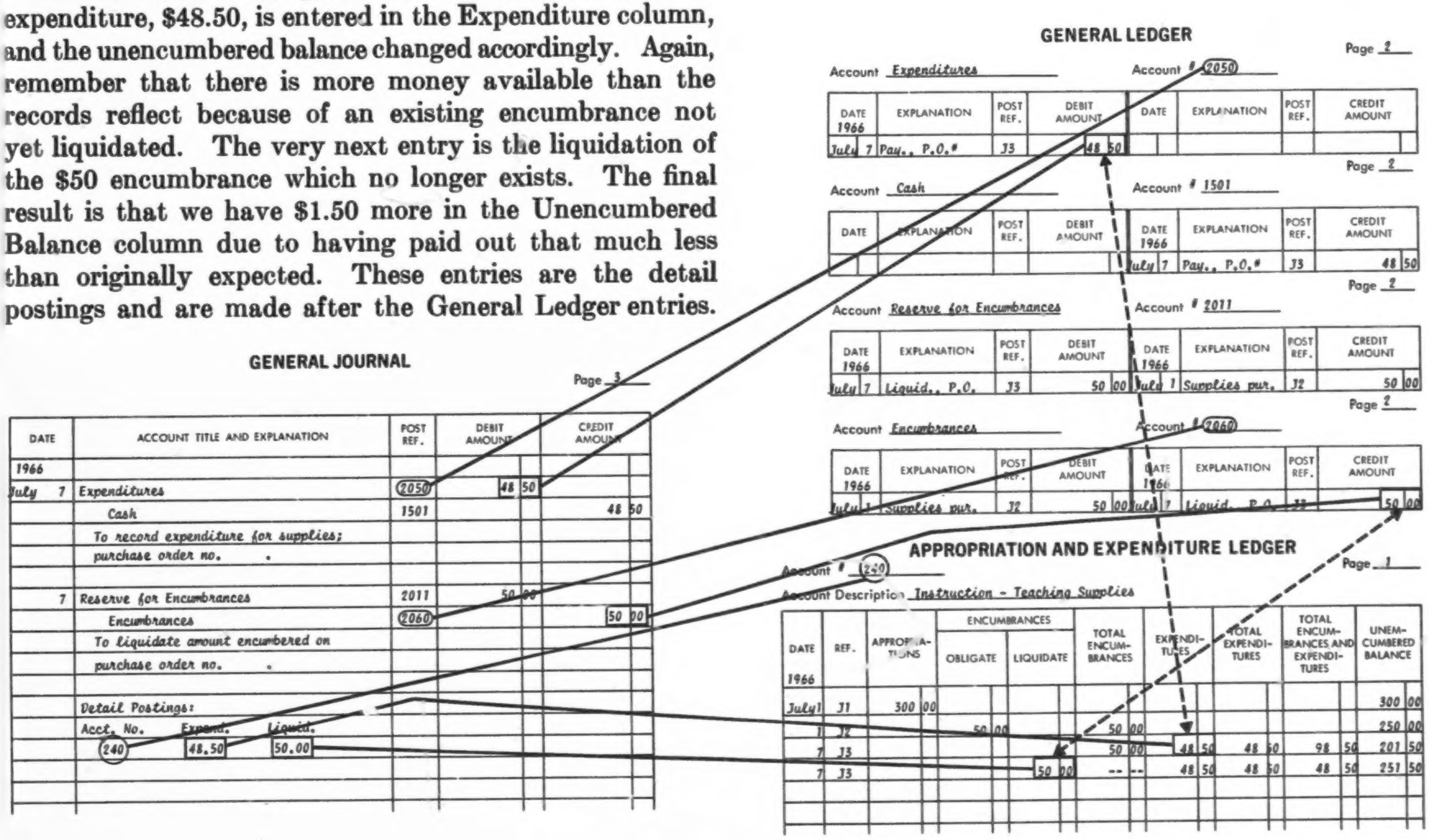
Page 1

Account Description Instruction – Teaching Supplies

DATE 1966	REF.	APPROPRIATIONS	ENCUMBRANCES OBLIGATE	ENCUMBRANCES LIQUIDATE	TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
July 1	J1	300 00							300 00
1	J2		50 00		50 00			50 00	250 00
7	J3				50 00	50 00	50 00	100 00	200 00
7	J3			50 00	-- --	50 00	50 00	50 00	250 00

Illustration 5

Now suppose that the bill was $48.50. It often happens that the actual amount paid out is different from what was encumbered or obligated. The exact amount of the expenditure, $48.50, is entered in the Expenditure column, and the unencumbered balance changed accordingly. Again, remember that there is more money available than the records reflect because of an existing encumbrance not yet liquidated. The very next entry is the liquidation of the $50 encumbrance which no longer exists. The final result is that we have $1.50 more in the Unencumbered Balance column due to having paid out that much less than originally expected. These entries are the detail postings and are made after the General Ledger entries.



GENERAL JOURNAL

Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966				
July 7	Expenditures	2050	48 50	
	Cash	1501		48 50
	To record expenditure for supplies;			
	purchase order no. .			
7	Reserve for Encumbrances	2011	50 00	
	Encumbrances	2060		50 00
	To liquidate amount encumbered on			
	purchase order no. .			
	Detail Postings:			
	Acct. No. Expend. Liquid.			
	240 48.50 50.00			

GENERAL LEDGER

Page 2

Account Expenditures Account # 2050

DATE 1966	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
July 7	Pay., P.O.#	J3	48 50				

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Account Cash Account # 1501

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE 1966	EXPLANATION	POST REF.	CREDIT AMOUNT
				July 7	Pay., P.O.#	J3	48 50

Page 2

Account Reserve for Encumbrances Account # 2011

DATE 1966	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE 1966	EXPLANATION	POST REF.	CREDIT AMOUNT
July 7	Liquid., P.O.	J3	50 00	July 1	Supplies pur.	J2	50 00

Page 2

Account Encumbrances Account # 2060

DATE 1966	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE 1966	EXPLANATION	POST REF.	CREDIT AMOUNT
July 1	Supplies pur.	J2	50 00	July 7	Liquid., P.O.	J3	50 00

APPROPRIATION AND EXPENDITURE LEDGER

Page 1

Account # 240

Account Description Instruction - Teaching Supplies

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966									
July 1	J1	300 00							300 00
1	J2		50 00		50 00				250 00
7	J3				50 00	48 50	48 50	98 50	201 50
7	J3			50 00	-- --	48 50	48 50	48 50	251 50

SUMMARY

(1) A **Schedule of Expenditures** is a listing of balances of all Expenditure accounts to verify the accuracy of the balance of the General Ledger expenditure summary account. Such a schedule should be prepared to verify the accuracy of the balances of all General Ledger summary accounts.

(2) **Accounts Payable,** unlike encumbrances, always represent actual amounts based on receipt of the goods and/or services and an invoice whose accuracy has been verified.

(3) **Liquidation** (or removal) of an encumbrance must take place after an expenditure has been recorded for which there was an encumbrance. This is necessary to remove the encumbrance which no longer exists.

(4) An **Abatement** is the reduction of a previously recorded expenditure or receipt item by such things as refunds, rebates, and collections for loss or damage to school property.

(5) A **Compound Journal Entry** is a balanced entry which contains two or more debits or two or more credits.

CHAPTER VI

The Balance Sheet, Monthly, and Annual Reports

The trial balance developed in the last chapter is essential, but it does not present the information in the best form for use by administrative personnel. Reports are therefore developed from the trial balance but are not in the same form.

The balance sheet

A "Balance Sheet" is a statement as of a specific date which shows assets and other resources, liabilities and other obligations, and fund balance of a fund or governmental unit properly classified to exhibit the financial position of the fund or unit. Remember that the balance sheet shows the condition at a given point in time; balance sheets made on successive days would probably differ because assets, liabilities, and fund balance are continually changing.

The purpose of a balance sheet is discussed in *Fundamentals of Governmental Accounting,*[1] in the following language:

> "The purpose of a balance sheet in governmental affairs is to present in one exhibit all the resources and obligations, assets and liabilities of the government. It is not to determine the net worth or financial ability of the government but to exhibit the source, distribution, and realization of resources and the extent to which these resources have been assigned, mortgaged, or extended. Its purpose is essentially administrative, but when presented to the public it sets forth the financial position of the governmental body involved as of its date. When so used, its content and arrangement are of great importance and must be such that there will be no misunderstanding as to the relation among and the restrictions on, the various items. The statement may be, and sometimes is, called a 'Statement of Financial Position' (or 'Condition').

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[1] Quoted with permission of the publisher from *Fundamentals of Governmental Accounting* 2d Ed., Morey & Hackett, New York, John Wiley & Sons, Inc., 1951, p. 298.

"The governmental Balance Sheet, first of all, must be analyzed or segregated by funds. The balance sheets of funds must include both accounts of actual assets and of resources expected to become expendable assets. They must include not only audited liabilities but also contracts or other encumbrances which are expected to become liabilities payable out of resources of the fund as stated, also the commitments of the resources of the funds in the form of appropriations and reserves.

"On any given date during a fiscal period, the Balance Sheet to be correct must contain all accounts necessary to exhibit correctly the condition of each fund as at that time and to indicate the amount of surplus (*fund balance*) [2] of each fund available for appropriation, which is the only figure of surplus (*fund balance*) that is significant. At the close of a fiscal period, accounts that are fiscal in nature are closed, and the Balance Sheet therefore consists mainly of real assets and liabilities."

The items entering into the balance sheets for the different funds will necessarily vary somewhat, but in general they should be arranged in the following order:

ASSETS

CURRENT ASSETS:
- Cash
- Receivables
- Property Taxes Receivable
- Stores
- Amounts Due from Other Funds or Governmental Units
- Investments

Deferred and Prepaid Expenses

Budgetary Accounts Normally Having Debit Balance, e.g., Estimated Revenues (only on Interim Balance Sheets)

LIABILITIES, RESERVES AND EQUITY

CURRENT LIABILITIES:
- Accounts Payable
- Temporary Loans Payable
- Due Other Funds or Governmental Units
- Budgetary Accounts Normally Having Credit Balances, e.g., Appropriations (only on Interim Balance Sheets)

LONG-TERM LIABILITIES:
- Long-Term Notes Payable

Deferred Income or Other Deferred Credits

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[2] The term, "fund balance," is inserted by the authors of this handbook.

RESERVES AND EQUITY:

Reserve for Encumbrances
Reserves for Special Purposes
Fund Balance (Trust and Agency Funds)
Fund Balance (Available for Appropriation)

It will be noted that fixed assets (land, buildings, machinery, furniture, and other equipment) do not appear in the form of balance sheet suggested above. This is because fixed assets are not assets of the General Purpose School Fund, the State Capital Outlay Fund, the Bond Fund, or any other operating fund. They are, however, assets of the governmental unit. All fixed assets will therefore appear in a special balance sheet called the "Fixed Asset Group" of accounts in chapter XII. Fixed assets should be classified as shown in the prescribed "Classification of Accounts."

Fixed assets do not appear in the balance sheet of an operating fund because they must be purchased out of appropriations and therefore for the purpose of recording the disbursement must be classified as expenditures. Proposed expenditures for capital outlay items are set up in the adopted budget and, consequently, payment is made from appropriated revenues—consisting primarily of taxes. Governments do not operate at a "profit" but exist to render service. There are no "profits" to be set aside in the form of a depreciation reserve to help replace fixed assets when they wear out—but future disbursement for such replacements or for the acquisition of additional assets must be made from future tax revenues or bond issues.

The purchases of fixed assets from an operating fund are recorded as expenditures, but the amount of all fixed assets is set up at their cost in a separate "fund" known as the "Fixed Assets Group of Accounts."

Balance sheet and trial balance distinguished

A balance sheet is a formal statement of assets, liabilities, reserves and fund balance at the end of a fiscal period. A "trial balance," taken at the end of any posting period after all postings have been made to the General Ledger, is simply a listing of all the accounts with their amounts in the order in which they appear in the General Ledger. All debit balances are placed in one column and all credit balances are placed in another. A total of each column is then obtained. If the two totals are equal, the General Ledger is said to be "in balance."

A trial balance should be prepared and the General Ledger proved to be in balance before the balance sheet and operating statements for the fiscal period are prepared. If the General Ledger is not in balance, an error (or errors) is indicated and must be located and corrected before additional postings are made or financial statements prepared.

The Interim balance sheet

Many school systems prepare a monthly interim balance sheet similar to the one on pages 120 and 121. For an interim balance sheet, the various Revenue, Expenditure, and Encumbrance accounts do not need to be closed. Instead, the Estimated Revenue account is listed with the assets, and from it the actual revenue realized is deducted. The liabilities, the reserves, the unencumbered balance, and the fund balance are listed, and their total should equal the assets above.

One point is to be noted clearly. Every item appearing on the General Ledger trial balance is put into its proper category. Items representing the current year's revenue and expenditures are assembled first into the Revenue and Expenditure Statements and only the totals (or balances) are carried over into the balance sheet. All other items on the trial balance are entered directly in the balance sheet; these represent asset items, liability items, encumbrances, and also the General Ledger accounts for total estimated revenues and appropriations. Since the Trial Balance shown in chapter V was in balance, all the individual (or summarized) items will still be in balance when they are carried over into the balance sheet.

HYPOTHETICAL SCHOOL DISTRICT
GENERAL FUND
INTERIM BALANCE SHEET
July 31, 1966

ASSETS AND RESOURCES

Cash		$82, 325.30
Petty Cash		425.00
Prepaid Expenses		4, 200.00
Accounts Receivable		3, 652.15
Investments [1]		64, 934.70
Estimated Revenue	$613, 020.00	
Less: Actual Revenue	110, 110.50	
Balance to be received		502, 909.50
Total Assets and Resources		$658, 446.65

LIABILITIES, RESERVES, AND FUND BALANCE

Salaries Payable	28, 450.00
Payroll Deductions Payable	2, 772.50

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[1] U.S. Treasury bills due Oct. 22, 1966.

Reserve for Encumbrances			$507,986.00
Appropriations		$639,930.00	
Less:			
Encumbrances	$507,986.00		
Expenditures	13,844.50		
Total Encumbrances and Expenditures		521,830.50	
Unencumbered Balance			118,099.50
Fund Balance			1,138.65
Total Liabilities, Reserves and Fund Balance			$658,446.65

Monthly reports

In chapter I, the reader was introduced to a number of recommended criteria which a model school accounting system should meet. One of these criteria, to provide adequate financial and related operational information for all interested parties, is a major objective of the recordkeeping process. The preparation of monthly financial reports, using information in the financial records, is the next step in the sequence of bookkeeping. The monthly reports will be of benefit principally to the school board members, school administrators, business managers, and officials of the local government. These reports should be prepared in considerable detail and should have columns showing also the budget figures for comparative purposes. They should cover both revenue and expenditures, and in addition, should show the available cash or the cash position in some form.

Statement of revenue, expenditure, and cash position

This illustration, on pages 122–123, shows one type of a Revenue, Expenditures, and Cash Position Statement that could be presented monthly to the board of directors and the school administration. The figures in this illustration are a continuation of the transactions in chapter V. The reader will note that the form starts with the beginning balances as of the first of July, including, however, only cash, petty cash, and investments. Only these three assets are used because they are the only ones readily available for payrolls or expenditures. To the total of cash and investments are added the revenues collected for the month. These figures are taken from the accounts in the subsidiary Revenue Ledger.

This statement is actually three statements combined into one. It would have been possible to make a separate Revenue Statement, Expenditures Statement, and Cash Position Statement. However, as all three are interrelated, it is more meaningful to combine them and at the same time maintain the identity of each.

HYPOTHETICAL SCHOOL DISTRICT

Statement of Revenue, Expenditures, and Cash Position

For the month ended July 31, 1966

	(1)	(2)	(3)	(4)	(5)	(6)
Beginning Balances, July 1, 1966						
Cash			$69, 445. 55			
Petty Cash			400. 00			
Investments			24, 847. 20			
Total Cash and Investments, July 1, 1966				$94, 692. 75		
	Budget Estimate		Actual Revenue			Balance To Be Received
Plus Revenue (Revenue Statement)						
Local Taxation and Appropriations	$353, 270. 00		$84, 010. 00			$269, 260. 00
Local Other Revenue	2, 800. 00		87. 50			2, 712. 50
Intermediate Revenue	220. 00					220. 00
State Revenue	253, 380. 00		25, 338. 00			228, 042. 00
Federal Revenue	2, 000. 00					2, 000. 00
Revenue from Other School Districts	1, 350. 00		675. 00			675. 00
Total Revenue	$613, 020. 00			$110, 110. 50		$502, 909. 50
Total Beginning Balance and Cash Revenue				$204, 803. 25		

Less Expenditures (Expenditures Statement)	Budget Appropriation	Encumbrances	Expenditures		Total Encumbrances & Expenditures	Unencumbered Balance
Administration	$19, 150. 00	$17, 170. 00	$1, 430. 00		$18, 600. 00	$550. 00
Instruction	468, 400. 00	456, 696. 00	7, 826. 90		464, 522. 90	3, 877. 10
Health	4, 000. 00	3, 508. 00	292. 00		3, 800. 00	200. 00
Transportation	4, 150. 00	4, 150. 00			4, 150. 00	
Operation of Plant	28, 890. 00	18, 462. 00	1, 635. 00		20, 097. 00	8, 793. 00
Maintenance of Plant	5, 100. 00		98. 50		98. 50	5, 001. 50
Fixed Charges	48, 300. 00		2, 562. 10		2, 562. 10	45, 737. 90
Community Services	1, 000. 00					1, 000. 00
Capital Outlay	26, 000. 00	8, 000. 00			8, 000. 00	18, 000. 00
Debt Service	34, 500. 00					34, 500. 00
Outgoing Transfers	440. 00					440. 00
Total Expenditures	$639, 930. 00	$507, 986. 00	$13, 844. 50		$521, 830. 50	$118, 099. 50
Plus:						
Decrease in Fund Balance			6, 361. 50			
Decrease in Accounts Payable			7, 262. 25			
Decrease in Salaries Payable			28, 450. 00			
Increase in Prepaid Expenses			1, 200. 00			
Total Cash Payments				57, 118. 25		
Total Cash Balance, July 31, 1966				$147, 685. 00		
Ending Balance, July 31, 1966						
Cash			$82, 325. 30			
Petty Cash			425. 00			
Investments			64, 934. 70			
Total Cash and Investments, July 31, 1966				$147, 685. 00		

The main computation of the cash position is obtained as follows:

Total Cash and Investments, July 1, 1966		$94,692.75
Total Revenue (during July)		110,110.50
Total Beginning Balance and Cash Revenue		$204,803.25
Less:		
Decrease in Fund Balance	$6,361.50	
Decrease in Accounts Payable	7,262.25	
Decrease in Salaries Payable	28,450.00	
Increase in Prepaid Expenses	1,200.00	
Total Expenditures (during July)	13,844.50	
Total Cash Payments		$57,118.25
Total Cash Balance Available, July 31, 1966		$147,685.00

The last line, $147,685, is the total cash balance available as of the end of the month, and represents the difference between $57,118.25, total cash payments during July, and what was available, $204,803.25. It should, and does, check out with the sum of the amounts listed in the three accounts at the end of the month, called the Ending Balance. The latter and the portions of the statement devoted to the computations above make up the Cash Position Statement.

Note that by comparing the computation above with that of the report, only columns 3 and 4 are needed to make the computation. Why, then, use the other columns? The answer is that the left-hand portion of the statement would have to be completed anyway to indicate the accounts to which the entries in column three pertain. Thus, rather than duplicate work by making a separate analysis, you can obtain a complete Revenue Statement from this statement by adding two more columns, Budget Estimate and Balance To Be Received. Now it is possible to show annual estimated revenues by source, that is, the budget figure (col. 1), the revenues actually realized in the fiscal year to date (col. 3), and the balance not yet realized in each revenue account (col. 6).

The same thing is true of the Expenditures section. By adding four columns, you can present, in addition to the amounts needed for the computation, a complete list of what has happened during the month in all functions. For, example in Administration, the annual budget appropriation was $19,150 (col. 1). In the second column $17,170 has been encumbered. The Expenditures column (col. 3) shows that $1,430 has already been paid out. Adding the last two amounts yields $18,600, the entry in the fifth column. The amount in the last column, $550, is what is unencumbered, or unobligated. The accuracy of all of these entries can be verified by adding the encumbrances to the expenditures (cols. 2 and 3), which should yield the Total Encumbrances and Expenditures (col. 5); further, the fifth column entry plus the Unencumbered Balance (col. 6) should equal the original budget appropriation (col. 1). Thus, a complete expenditure statement is presented which doesn't at all detract from the overall report on the Cash Position as of July 31 and how it was reached.

The summary totals of the expenditures for each function are taken from the accounts in the Appropriation and Expenditure Ledger. The following cash payments must be added to total expenditures to arrive at total cash payments during July: (1) the decrease in fund balance; (2) the decrease in accounts payable; (3) the decrease in salaries payable; and (4) the increase in prepaid expenses. These cash payments were not charged to expenditures, but did reduce cash. Thus, a total of $57,118.25 is obtained and is called "Total Cash Payments."

As was indicated in chapter V, it is recommended that all purchase orders, salary commitments, and any other formal contractual commitments be recorded as encumbrances in the journal and posted in the expenditure ledgers. If the school system has elected not to post all purchase orders and other encumbrances in the formal records but to post only actual expenditures, it is recommended that a separate report be prepared showing the summary of outstanding encumbrances against each appropriation by totaling the outstanding commitments such as purchase orders kept in the files.

Annual reports

At the end of the fiscal year, a number of detailed annual reports similar to the monthly reports must be prepared. The information contained in these reports will probably be used to prepare reports for the State department of education on forms usually supplied by the State department. The annual Statement of Revenue, Expenditure, and Cash Position should be similar if not identical to the one illustrated on pages 122–123 of this chapter.

The ledger figures that have been posted in chapter V consist only of the transactions in the month of July, so the monthly reports prepared from them are typical. Rather than post transactions of 11 more months let us assume that the transactions were properly posted for the rest of the year and that the routine trial balance of June 30, 1967, was as shown on page 126.

Adjusting and closing the books

A necessary procedure at the close of the fiscal year, common to all accounting systems, is known as "closing the books." This term includes the making of the necessary entries in the General Journal to (1) adjust certain General Ledger accounts, and (2)

HYPOTHETICAL SCHOOL DISTRICT
TRIAL BALANCE
June 30, 1967

	Account Title	Acct. No.	Debit		Credit	
	Cash	1501	65,354	95		
	Petty Cash	1510	425	00		
	Prepaid Expenses	1530	4,200	00		
	Accounts Receivable	1540	982	00		
	Investments	1550	12,851	00		
	Accounts Payable - Vendors	1610			4,191	00
	Payroll Deductions Payable	1620			6,061	25
	Employer's Retirement Contribution Payable	1625			6,061	25
	Fund Balance	2010			1,138	65
	Reserve for Encumbrances	2011			57,391	50
	Estimated Revenue	2020	613,020	00		
	Revenue	2030			609,956	50
	Appropriations	2040			639,930	00
	Expenditures	2050	570,505	70		
	Encumbrances	2060	57,391	50		
			1,324,730	15	1,324,730	15

close out all Budgetary accounts, Expenditure accounts, and Revenue accounts that have been used during the year, and thus arrive at the end-of-year fund balance.

After the necessary adjusting and closing entries have been made, the General Ledger will contain the accounts of the various assets, liabilities, reserves, and the fund balance. The General Ledger accounts will balance, but there will be no amounts in the various Budgetary, Revenue, and Expenditure accounts.

Adjusting entries

Before making the final closing entries, check to be sure that all adjusting entries have actually been made and posted. These adjusting entries bring the various accounts up to date. Such entries would probably include the following:

(1) Setting up on the books, all accounts payable existing at the end of the fiscal year.

(2) At the beginning of the fiscal year there was $3,000 in the Prepaid Expense account. This was later increased to $4,200 because of the purchase of $1,200 worth of paid up insurance for the two following fiscal years. The original $3,000 of prepaid expense was for maintenance service and supplies. The maintenance service has been received and the supplies consumed. Thus, this $3,000 worth of assets no longer exists, and an adjusting entry is necessary to reflect this.

(3) Just as $56,900 of salaries payable were carried over from the previous fiscal year and paid during July and August 1966, it is now necessary to carry over into July and August 1967, the applicable amount of salaries payable. Again there are four payrolls involved, yielding a total of $56,964 (4×$14,241).

HYPOTHETICAL SCHOOL DISTRICT
General Fund
Work Sheet
June 30, 1967

Account Number	Account Titles	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	State. of Revenue & Expend. Debit	State. of Revenue & Expend. Credit	Balance Sheet Debit	Balance Sheet Credit
1501	Cash	65 354 95						65 354 95	
1510	Petty Cash	425 00						425 00	
1530	Prepaid Expenses	4 200 00			(a) 3 000 00			1 200 00	
1540	Accounts Receivable	982 00						982 00	
1550	Investments	12 851 00						12 851 00	
1605	Salaries Payable				(b) 56 964 00				56 964 00
1610	Accounts Payable-Vendors		4 191 00						4 191 00
1611	Notes Payable								
1620	Payroll deductions payable		6 061 25						6 061 25
1625	Employers Ret. Contr. payable		6 061 25						6 061 25
2010	Fund Balance		1 138 65						1 138 65
2011	Reserve for Encumbrances		57 391 50	(b)^1 56 964 00					427 50
2020	Estimated Revenue	613 020 00				613 020 00			
2030	Revenue		609 956 50				609 956 50		
2040	Appropriations		639 930 00				639 930 00		
2050	Expenditures	570 505 70		(a) 3 000 00		630 469 70			
				(b) 56 964 00					
2060	Encumbrances	57 391 50			(b)^1 56 964 00	427 50			
		1 324 730 15	1 324 730 15	116 928 00	116 928 00	1 243 917 20	1 249 886 50	80 812 95	74 843 65
Excess of	Revenue over Expenditure								
(Addition	to Fund Balance)					5 969 30			5 969 30
						1 249 886 50	1 249 886 50	80 812 95	80 812 95
Adjustments									
(a)	Charge Prepaid Expenses to Expenditure Accounts								
(b)	Charge Salaries to Expenditures and establish Salaries Payable								
(b)^1	Liquidate Salary Encumbrance								

There are other methods of handling such prepaid expenses. One method is to charge off the entire expenditure at the beginning of the year as shown in the purchase of the insurance. Another method is to prorate the cost over the fiscal period; in the latter case, then, $250 a month could have been charged to maintenance.

These adjusting entries are entered in the adjustment Debit and

Credit columns of the worksheet, page 127. The worksheet is a sheet of working paper that enables the bookkeeper to sort and interpret the trial balance; it also provides a convenient method of summarizing the bookkeeping records and proving the accuracy of all calculations. As it is not a part of the permanent bookkeeping records, it may be prepared in pencil.

After the end-of-year trial balance is prepared, the first two columns of the worksheet are completed from it. When preparing the end-of-year trial balance section of the worksheet, also include any accounts with zero balances. This is necessary because there may be some adjustments to those accounts. Next, the adjustments are entered as explained above, namely, debiting Expenditures for $3,000 ($3,000 for maintenance service) and crediting Prepaid Expenses for a like amount. Note that the latter entry, when subtracted from the beginning balance of $4,200, leaves $1,200 for the balance sheet entry. The asset, liability, and fund balance entries are transferred to the balance sheet column because they are balance sheet items. The adjustments as worked out in the worksheet serve as the basis for the adjusting entries in the General Journal, page 133.

The fifth and sixth columns make up the expenditure and revenue columns. The accounts in this section are temporary accounts, i.e., they are not a part of the basic asset, liability, and fund balance structure. The entry for excess of revenue over expenditures, which is the addition to fund balance, is a balancing entry, i.e., its inclusion makes the column totals equal each other. This section is analyzed as follows:

> Since we are computing the balancing entry, assume it is now blank. The first entry in the debit column, $613,020, is the total of the anticipated revenue for the year, $610,520, and $2,500 of additional anticipated revenue added after the beginning of the fiscal year. The last entry in the credit column, $639,930, appropriations, is the total estimate of need for the entire fiscal year. The difference between the latter amount and the original anticipated revenue, $610,520, is $29,410, which was the estimated fund balance at the beginning of the fiscal year. Actually, what occurred was that the school district, estimating that it would have $29,410 to begin with, calculated that $610,520 would be needed to make a total of $639,930 to meet all expenditures. The $427.50, encumbrances, and $630,469.70, expenditures, total $630,897.20, and represents total expenditures and encumbrances. Since the $1,138.65 actually in the fund balance was never "appropriated" for a specific type of expenditure, it must be deducted from the actual revenue, $609,956.50, to yield the actual revenue appropriated, or $608,817.85. The beginning balance of $34,410.15 is reduced by the $6,361.50, which was charged against fund balance to take care of retirement con-

tributions which were inadvertently not set up as a payable at the end of the previous fiscal year. The difference, $28,048.65, is added to the actual revenue appropriated, $608,817.85, to give the amount available for expenditures during the year, $636,866.50. Subtracting the total encumbrances and expenditures, $630,897.20, from the latter yields $5,969.30, the balancing figure which represents the excess of revenue over expenditures, and which will be an addition to the existing fund balance. Note in the worksheet that the three entries in column 5 and the two entries in column 6 are totaled, and that the difference between these two totals is the "balancing" entry, which is then added below the smaller total to arrive at equal totals for both columns.

A formal statement, such as the one on page 130, is usually prepared showing the computations above. The primary source for this statement is the entries in columns 5 and 6. In addition, of course, the $1,138.65 balance in the Fund Balance account had to be taken into account since this wasn't anticipated at the beginning of the year. Please note how this affected the computation. This statement shows exactly what happened during the year to bring the Fund Balance account to its present balance; the entries in the Fund Balance account establishing the Estimated Revenue and Appropriations accounts, as well as the change in estimated revenue, were estimates, and have been superseded by actual amounts.

This statement has been titled "General Fund Statement of Analysis of Change in Fund Balance" because it shows, in summary form, how the ending fund balance was obtained. However, it could also have been called a Summary Statement of Revenue and Expenditures since fiscal year revenue and expenditures determine the change in fund balance. Thus, it is a question of emphasis, and here the emphasis is on fund balance.

Closing entries

There are several different ways of making closing entries, each of which is correct. The General Journal illustrated on page 134 shows one of the recommended ways for preparing closing entries. This method involves:

(1) Closing the Revenue and Estimated Revenue accounts to the Fund Balance account. This entry shows that less revenue was received than anticipated, and that fund balance must be decreased by this same amount.

HYPOTHETICAL SCHOOL DISTRICT

General Fund Statement of
Analysis of Change in Fund Balance
For Fiscal Year July 1, 1966, to June 30, 1967

Total Current Assets, July 1, 1966	$101,344.90			
Less Total Current Liabilities, July 1, 1966	66,934.75			
Beginning Fund Balance, July 1, 1966		$34,410.15		
Less Adjustment for Previous Year's Retirement Contribution		6,361.50		
Fund Balance After Adjustment		28,048.65		
Add Actual Revenue Appropriated:				
Actual Revenue	609,956.50			
Less Revenue Not Appropriated (Fund Balance)	1,138.65	608,817.85		
Amount Available for Expenditure During Year			$636,866.50	
Less Total Encumbrances and Expenditures:				
Expenditures		630,469.70		
Encumbrances		427.50	630,897.20	
Excess of Revenue Over Expenditures and Encumbrances				$5,969.30
Fund Balance Carried Forward (not appropriated during year)				1,138.65
Fund Balance, June 30, 1967				$7,107.95

(2) Closing the Encumbrance account to the Expenditure account. This entry leaves a balance in the Reserve for Encumbrances account, and charges this future payment, that is, the payment resulting from the encumbrance, to current expenditures. This isn't a bona fide expenditure because cash hasn't been paid out; however, to allocate expenditures properly to the year in which they apply, it is necessary to make this entry, which sets up a reserve for payment in the next fiscal year. Note that this reserve has been deducted from the fund balance to charge the expenditure to the current period. Thus, when the payment is made during the next fiscal period, it will not be charged against that period's revenue. An alternate and just as valid method of closing encumbrances is illustrated in the journal entries in chapter XI, page 202. In this method the encumbrances are closed at the end of the fiscal year and re-appropriated when the books for the ensuing year are opened.

(3) Closing the Appropriations and Expenditure accounts to the Fund Balance account. The effect of this entry is to increase

the Fund Balance account by the exact amount by which appropriations exceeded expenditures.

Just as the adjustments columns of the worksheet provide the information for the adjusting entries, the Statement of Revenue and Expenditures Debit and Credit columns provide the information for the closing entries. It was indicated previously that all accounts in this section are temporary. Therefore, it is obvious that to close these accounts (i.e., leave with a zero balance), it is necessary to make an entry in the opposite column. Note how the closing entries in the journal do cancel out the entries in columns 5 and 6 of the worksheet. To cancel out the debit entry for expenditures, $630,469.70, the bookkeeper must take the "net" credit to expenditures from the closing entries: $630,897.20 (third closing entry) minus $427.50 (second closing entry) yields "net" credit to expenditures of $630,469.70. This "mechanical" method of checking the closing entries can be used to verify their accuracy. It is helpful to think through what needs to be done, keeping in mind the relationships between the accounts and, particularly, the effect on fund balance. However, it is helpful to know that the final closing entries can be checked against the entries in the Statement of Revenue and Expenditures section of the worksheet.

Following the illustration of the General Journal pages are illustrations of the accounts of the General Ledger as of the end of the year, with the adjusting entries and closing entries properly posted to these accounts.

Closing, balancing, and ruling the ledger

The final task in the ledger is to balance the Asset, Liability, Fund Balance, and Reserve accounts, and close the Estimated Revenue, Revenue, Appropriations, Encumbrances and Expenditures accounts.

To balance an account with one or more entries on each side, e.g., the Cash account on page 135, proceed as follows:

(1) Enter the difference or "balance" of the account on the side showing the smaller total. Note in the Cash account that the balance is $65,354.95, and that the latter when added to the smaller side makes both columns equal. Write the word "Balance" in the explanation column, and place a checkmark in the Post Ref. column to indicate that this item was not posted from a journal. The Prepaid Expenses, Investments, and Fund Balance accounts are balanced in the same manner as the Cash account. Accounts with entries on one side only, that is, the Petty Cash account, need not be balanced because their balance is the total of the entries.

(2) Total and rule the account as indicated in the Cash account on page 135.

(3) Enter the balance again below the double ruling on the side originally having the larger footing; this is the side which normally reflects the balance, that is, debit side for asset accounts and credit side for liability, reserve, and equity accounts. Since this is the beginning balance for the new fiscal period, date it as such. Write the word "Balance" in the explanation column, and place a checkmark in the Post Ref. column to indicate that this entry was not posted from a journal.

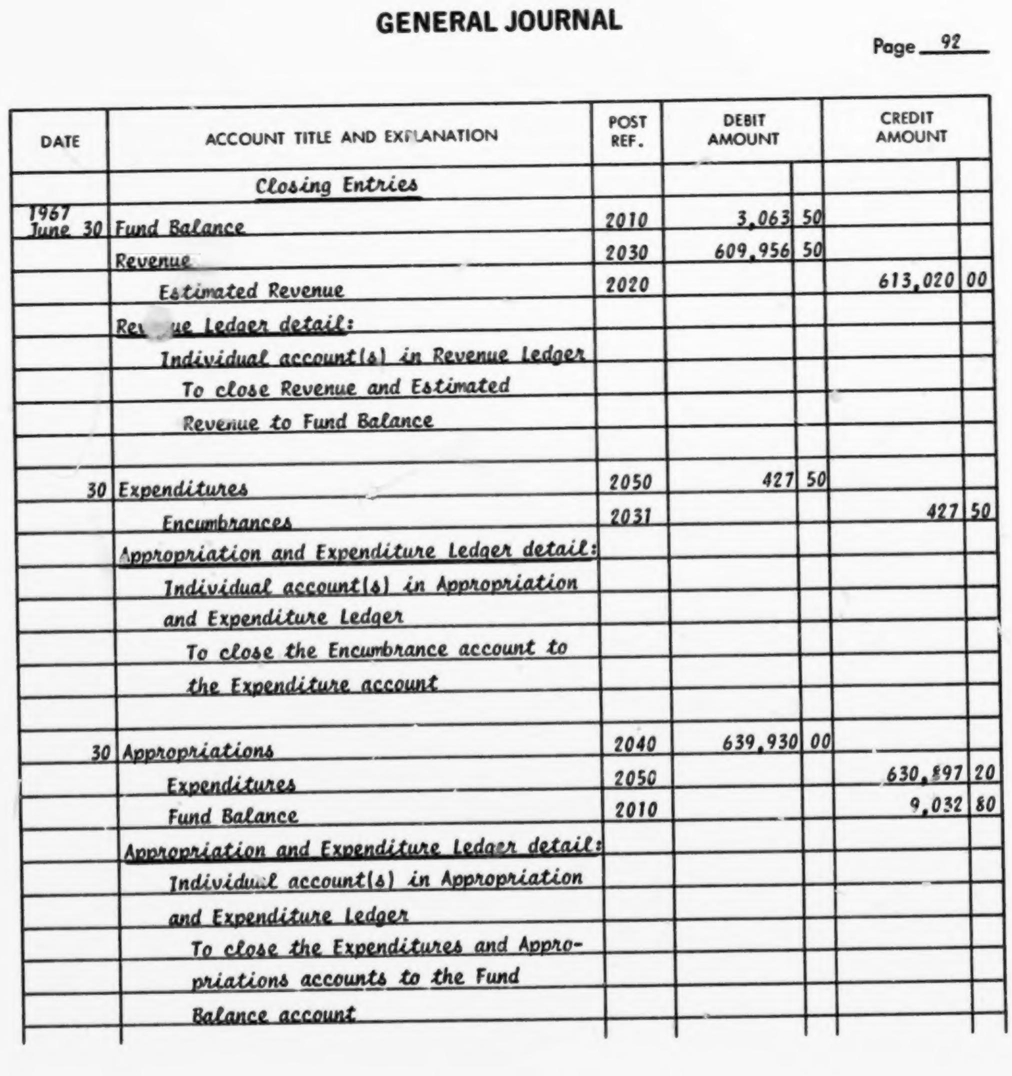
(4) Show that, because the closing entries have been posted, the Estimated Revenue, Revenue, Appropriations, Encumbrances, and Expenditures accounts are in balance; then close them by adding the debit entries and credit entries and placing double ruling beneath the totals.

The final illustration in this chapter is the actual balance sheet based on the figures derived from the worksheet illustrated on page 127. Note that the procedure has gone through a complete cycle and is back to the basic balance sheet used in chapter III. The amounts are different and reflect the financial status of the school district at the end of the year.

GENERAL JOURNAL

Page 91

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
	Adjusting Entries					
1967 June 30	Expenditures	2050	3,000	00		
	Prepaid Expense	1530			3,000	00
	Appropriation and Expenditure Ledger detail:					
	Maintenance of Plant - Contracted					
	Services - $3,000.00	1720				
	To record end of year adjustment by					
	charging off prepaid expense to the					
	proper expend. Acct.					
30	Expenditures	2050	56,964	00		
	Salaries Payable	1605			56,964	00
	Appropriation and Expenditure Ledger detail:					
	Instruction-Teachers' Salaries-$56,964.00	213				
	To charge to the current year the re-					
	maining portion of salaries for teacher'					
	paid only for ten months. As the re-					
	maining two months salary will be paid					
	in the new fiscal year, it is necessary					
	to set up salaries payable in order to					
	properly charge expenditures in the					
	year in which services were performed.					
30	Reserve for Encumbrances	2011	56,964	00		
	Encumbrances	2060			56,964	00
	Appropriation and Expenditure Ledger detail:					
	Instruction-Teachers' Salaries-$56,964.00	213				
	To liquidate payroll encumbrances for					
	amount of expenditure charged to sal-					
	aries payable above.					



GENERAL JOURNAL

Page 92

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
	Closing Entries					
1967 June 30	Fund Balance	2010	3,063	50		
	Revenue	2030	609,956	50		
	Estimated Revenue	2020			613,020	00
	Revenue Ledger detail:					
	Individual account(s) in Revenue Ledger					
	To close Revenue and Estimated					
	Revenue to Fund Balance					
30	Expenditures	2050	427	50		
	Encumbrances	2031			427	50
	Appropriation and Expenditure Ledger detail:					
	Individual account(s) in Appropriation					
	and Expenditure Ledger					
	To close the Encumbrance account to					
	the Expenditure account					
30	Appropriations	2040	639,930	00		
	Expenditures	2050			630,897	20
	Fund Balance	2010			9,032	80
	Appropriation and Expenditure Ledger detail:					
	Individual account(s) in Appropriation					
	and Expenditure Ledger					
	To close the Expenditures and Appro-					
	priations accounts to the Fund					
	Balance account					

GENERAL LEDGER

Page 16

Account Cash

Account # 1501

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 June	27	Balance carried forward	Pg. 15	83,844	25	1967 June	28	Payroll	J88	15,142	20
	28	Other Rev. from local source	J88	2,500	00		28	Payroll ded. Fed. Inc. Tax	J88	1,955	70
							28	Employee & employer ret. ded.	J88	3,891	40
							30	Balance	✓	65,354	95
		65,354.95		86,344 86,344	25 25					86,344	25
1967 July	1	Balance	✓	65,354	95						

GENERAL LEDGER

Page 1

Account Petty Cash

Account # 1510

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beg. Balance	J1	400	00						
	12	Petty Cash issued to H.S. Princip	J6	25	00						
				425	00						

GENERAL LEDGER

Page 1

Account Prepaid Expenses

Account # 1530

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Beg. Balance	J1	3,000	00	1967 June	30	Charge off to expenditures	J91	3,000	00
	11	Ins. for 2 following FY's	J6	1,200	00		30	Balance	✓	1,200	00
				4,200 4,200	00 00					4,200	00
1967 July	1	Balance	✓	1,200	00						

GENERAL LEDGER

Page 2

Account Accounts Receivable Account # 1540

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 June	29	Balance carried forward	Pg.1	982	00						

GENERAL LEDGER

Page 3

Account Investments Account # 1550

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 May	15	Balance carried forward	Pg.2	24,613	00	1967 June	10	90 day Treas. bills mature	J86	11,762	00
							30	Balance	✓	12,851	00
		12,851		24,613	00					24,613	00
1967 July	1	Balance	✓	12,851	00						

GENERAL LEDGER

Page 1

Account Salaries Payable Account # 1605

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	14	First summer payroll	J6	14,225	00	1966 July	1	Beg. Balance	J1	56,900	00
	28	Second summer payroll	J14	14,225	00						
Aug.	11	Third summer payroll	J21	28,450 14,225	00 00						
	25	Fourth summer payroll	J30	14,225	00						
		Balance	✓	56,964	00	1967 June	30	Setup 4 pyrolls for July-Aug.	J91	56,964	00
				113,864	00					113,864	00
						1967 July	1	Balance	✓	56,964	00

GENERAL LEDGER

Page 2

Account Accounts Payable - Vendors Account # 1610

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
						1967 June	30	Balance carried forward	P.20	4,191	00

GENERAL LEDGER

Page 12

Account *Payroll Deductions Payable* Account # *1620*

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1967 June 29	Bal. carried forward	P.11	6,061 25

GENERAL LEDGER

Page 12

Account *Employers Retirement Contributions Payable* Account # *1625*

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1967 June 29	Bal. carried forward	P.11	6,061 25

GENERAL LEDGER

Page 1

Account *Fund Balance* Account # *2010*

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1966 July 1	Set up Appropriations Account	J3	639,930 00	1966 July 1	Beg. Balance	J1	34,410 15
15	Previous year's retirement contr	J9	6,361 50	1	Establish Est. Revenue Acct.	J2	610,520 00
1967 June 30	Close Rev.& Est. Rev.to Fund Bal.	J92	3,063 50	4	Revise Est. Revenue	J4	2,500 00
	Balance	✓	7,107 95	1967 June 30	Cl.Exp. & App. Accts to F.Bal.	J92	9,032 80
			656,462 95		7,107 95		656,462 95 656,462 95
				1967 July 1	Balance	✓	7,107 95

GENERAL LEDGER

Page 5

Account *Reserve for Encumbrances* Account # *2011*

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 June 30	Liq.enc.for Sal. payable set up	J91	56,964 00	1967 June 29	Balance carried forward	Pg.4	57,391 50
	Balance	✓	427 50				
			57,391 50				57,391 50
				1967 July 1	Balance	✓	427 50

245-882 O—67——10

GENERAL LEDGER

Page 1

Account Estimated Revenue   Account # 2020

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1966 July	1	Set up Est. Rev. Account	J2	610,520	00	1967 June	30	Close to Fund Balance	J92	613,020	00
	4	Revise Estimated Revenue	J4	2,500	00						
				613,020 613,020	00 00					613,020	00

GENERAL LEDGER

Page 14

Account Revenue   Account # 2030

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 June	30	Close Rev. to Fund Balance	J92	609,956	50	1967 June	29	Balance carried forward	P.13	609,156	50
							30	Revenue from State Sources	J88	800	00
				609,956	50					609,956 609,956	50 50

GENERAL LEDGER

Page 5

Account Encumbrances   Account # 2060

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 June	29	Balance carried forward	Pg.4	57,391	50	1967 June	30	Liq. enc. for Sal.pay. set up	J91	56,964	00
							30	Close to Exp. Acct.	J92	427	50
				57,391	50					57,391 57,391	50 50

GENERAL LEDGER

Page 1

Account Appropriations   Account # 2040

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 June	30	Close to Fund Balance	J92	639,930	00	1966 July	1	Set up Appropriation Acct.	J3	639,930	00

GENERAL LEDGER

Page 10

Account Expenditures

Account # 2050

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 June	28	Balance carried forward	Pg. 9	570,475	00	1967 June	30	Close to Fund Balance	J92	630,897	20
	28	Pay School Supply Company	J89	30	70						
	30	Adjusting Entry-Maint. of Plant	J91	3,000	00						
	30	Adjusting Entry-Set up Sal. Pay.	J91	56,964	00						
	30	Close Enc. Acct., to Exp.	J92	427	50						
				630,897	20					630,897	20

The reader has now been through a shortened version of the accounting cycle for one year's transactions of a small school district. This cycle started with the reporting of assets, liabilities, and fund balance; the recording of the newly adopted budget; the recording of a series of sample transactions, and the posting of these to the proper accounts; the preparation of some recommended monthly reports used in a great number of school districts; and using assumed year-end figures, the preparation of the annual reports. To start the next school year follow the same sequence; however, because the General Ledger accounts have already been established (these accounts are never closed unless and until the school district goes out of business), the first transaction recorded for the next school year would be the entries for recording the new budget.

HYPOTHETICAL SCHOOL DISTRICT

GENERAL FUND

BALANCE SHEET

June 30, 1967

ASSETS

Cash	$65,354.95
Petty Cash	425.00
Prepaid Expenses	1,200.00
Accounts Receivable	982.00
Investments	12,851.00
Total Assets	$80,812.95

LIABILITIES, RESERVES, AND FUND BALANCE

Salaries Payable	$56,964.00
Accounts Payable—Vendors	4,191.00
Payroll Deductions Payable	6,061.25
Employers Retirement Contributions Payable	6,061.25
Fund Balance	7,107.95
Reserve for Encumbrances	427.50
Total Liabilities, Reserves, and Fund Balance	$80,812.95

Summary

(1) A **Balance Sheet** is a statement as of a given point in time which shows assets, liabilities, and fund balance.

(2) The **Statement Of Revenue, Expenditures, And Cash Position** is a monthly or annual combination statement that may be useful to the school board and school administrators.

(3) At the end of the fiscal year it is necessary to make journal entries which transfer the balance from one account to another account; such entries are called **Closing Entries.**

(4) Entries made at the end of the fiscal year to bring the various accounts up to date are called **Adjusting Entries.**

(5) The **Worksheet** is a sheet of columnar ruled paper that enables the bookkeeper to sort and interpret the trial balance; it also provides a convenient method of summarizing the bookkeeping records and proving the accuracy of all calculations.

CHAPTER VII

Subsidiary Journals

In the previous chapters all transactions were entered in the General Journal, and subsequently each item was posted individually to the general and subsidiary ledger accounts. Thus, every time a check or warrant was issued (cash paid out), an entry was made in the General Journal which later had to be posted to the appropriate ledger account. In addition, for every receipt of cash there was also a General Journal entry and an individual ledger account posting.

Except in small organizations with relatively few transactions, this process of entering every transaction in the General Journal will result in a voluminous and unwieldy journal. A further disadvantage is that every item requires individual posting. Since there may be hundreds of expense entries every month for the various classifications of payroll and/or other expenditures as well as a similar number of individual cash receipt transactions, the possibility of clerical errors is greatly increased.

To avoid these difficulties, a system of *subsidiary journals* is developed which minimizes the work and, at the same time, facilitates various analyses needed for financial statement purposes. These special journals are used for recording transactions of like nature, and only those journal entires which do not fit into a subsidiary journal are entered into the General Journal.

The cash journal

This is the most commonly used subsidiary journal because a large number of transactions involve cash. The decision on what type of subsidiary journal should be used depends on the frequency of the various transactions. Other subsidiary journals that might be used include payroll, accounts payable, accounts receivable, encumbrances, and purchases.

Some organizations use a Cash Receipts Journal and a Cash Payments Journal. These two journals can be combined effectively in the Cash Journal, and all transactions involving cash entered in one record. A Cash Journal is illustrated on the following pages. The transactions used in the example are the same as those used in chapter V, pages 57 through 60. Those involving cash are shown below; those not involving cash are marked "General Journal Entry" and are not, of course, shown in the Cash Journal illustrated.

1., 2. General Journal entry.

3. Pay accounts payable to vendors:

School Paper Co	$873.00
School Book Co	1,200.25
School Supply Co	900.00
Athletic Equipment Co	700.00
	$3,673.25

4. General Journal entry.

5. The school district received a check for $675 from the neighboring school district for tuition for two special students.

6., 7. General Journal entry.

8. The school district borrows, on a 30-day note, $20,000 from the National Bank at an annual interest rate of 3 percent.

9. General Journal entry.

10. Pay the invoice from the XYZ Hardware Store for the 10 gallons of paint—invoice amount is $48.50.

10. The previous encumbrance of $50 is liquidated from both the control accounts and the Appropriation and Expenditure Ledger detail account. Note that this is the exact opposite of the entry initially recording the encumbrance.

11. Purchase a three-year fire insurance policy with Congress Insurance Agency and pay the premium in full in the amount of $1,800.

12. Issue a check for $25 to the high school principal to set up a Petty Cash Fund.

13. Receive a check from the State Department of Education in the amount of $25,388.

14. Pay the payroll for the 14th of the month (see p. 71, chapter V, for detail).

14. At the beginning of the year, the total amount of salaries was encumbered. Throughout the year, as each payroll is made, it is necessary to liquidate the amount that has become an expenditure.

14. Pay the $1,955.70 withheld from the July 14 payroll as Federal income tax deductions to the U.S. Treasury.

15. Record payment of employee deductions and employer's retirement contributions to State retirement system.

16. Receive a check from the local tax collector in the amount of $84,010.

17. Repay the $20,000 note and $16.40 interest to the National Bank.

18. General Journal entry.

19. Pay the June telephone bill in the amount of $97.

20. Pay travel expenses of Miss Smith to the Remedial Reading Conference in the amount of $38.

21. Replenish the high school Petty Cash Fund because $18 has been spent for office supplies.

22. Pay for textbooks received from the School Book Co., transaction No. 18 above. The invoice is for $378 plus $12.50 freight charge.

22. Liquidate the previous encumbrance of $420 from both control accounts and from the detail account in the Appropriation and Expenditure Ledger. In this instance the expenditure was less than originally anticipated.

23. The school district's Treasurer uses $50,000 of inactive funds to buy 90-day U.S. Treasury bills for investment purposes.

24. General Journal entry.

25. Hailstorm damage requires $156 for emergency repairs to the Lichtenberger Elementary School.

26. Instructional supplies are received from the School Supply Co., invoice $180, 2 percent/10 days, paid less $3.60 discount.

26. On July 18th a $180 purchase order was issued for teaching supplies. Therefore, the Teaching Supplies account, No. 240, was encumbered in like amount to record the obligation. The terms of the transaction, 2 percent/10 days, enable the school

district to realize a 2-percent discount if the bill is paid within 10 days. Thus, the expenditure is $176.40. However, the original encumbrance of $180 must be liquidated, and this is accomplished by debiting Reserve for Encumbrances and crediting Encumbrances. In addition, of course, the encumbrance must be liquidated from the detail account.

27. General Journal entry.

28. Pay the payroll for the 28th of the month (see p. 85, chapter V, for detail).

28. A liquidating entry, similar to the one following the July 14 payroll, is necessary to reduce the salary encumbrance for the exact amount of the payroll expenditure.

28. Pay the $1,955.70 withheld from the July 28 payroll as Federal income tax deductions to the U.S. Treasury.

28. Pay the State Retirement Board (employers' rate same as employees') for the current month's employees deductions plus the school district's contribution.

29. General Journal entry.

30. A check for $106 is received from the insurance company to compensate for the hail damage.

31. The school district receives $10,000 as a result of the maturing of certain U.S. Treasury bills. The original investment was $9,912.50.

CASH JOURNAL

Page 1

Cash Debit	Expenditures Debit	General Debit	Date	Name of Account Title	Post Ref.	No.	General Credit	Revenue Credit	Cash Credit	Encumbrance Liquidation: Res. for Enc. Debit	Encumbrance Liquidation: Encumbrance Credit
69 445 55			1966 July 1	Cash (Beg. Balance)							
				Cash	1501		69 445 55				
		3 673 25	3	Accts. Payable-Vendors	1610						
				Cash					3 673 25		
				To record payments to:							
				School Paper Company - 873.00		Ck 1					
				School Book Company - 1,200.25		Ck 2					
				School Supply Company - 900.00		Ck 3					
				Athletic Equipment - 700.00		Ck 4					
				3,673.25							
675 00			5	Cash		R1					
				Revenue				675 00			
				Tuition from Other							
				School Districts 675.00	80						
20 000 00			8	Cash		R2					
				Note Payable	1611		20 000 00				
	48 50		10	Expenditures							
				Cash		Ck 5			48 50		
				Maint. of Plant-Cont. Services-- $48.50	720						
			10	Reserve for Enc. (P.O.)						50 00	
				Encumbrances (102)							50 00
				Maint. of Plant-Cont. Services-- $50.00	720						
	600 00		11	Expenditures							
		1 200 00		Prepaid Expenses	1530						
				Cash		Ck 6			1 800 00		
				Fixed Charges-Ins. Premiums-- $600.00	820						
		25 00	12	Petty Cash	1510						
				Cash		Ck 7			25 00		

Page 2

CASH JOURNAL

Cash Debit	Expenditures Debit	General Debit	Date	Name of Account Title	Post Ref.	No.	General Credit	Revenue Credit	Cash Credit	Encumbrance Liquidation	
										Res. for Enc. Debit	Encumbrance Credit
25 338 00			1966 July 13	Cash		R3					
				Revenue				25 338 00			
				Revenue from State Sources-$25,338	30						
		14 225 00	14	Salaries Payable (1)	1605						
	5 232 00			Expenditures							
				Payroll Ded. Payable-Retirement	1620		972 85				
				Payroll Ded. Payable-Fed. Inc. Tax	1620		1 955 70				
				Payroll Ded. Payable-F.I.C.A.	1620		906 25				
				Payroll Ded. Payable-Hosp. Insurance	1620		480 00				
				Cash					15 142 20		
				App. & Exp. Ledger Detail:							
				Acct. # Title Amount							
				110 Admin. $ 715	110						
				211 Prin. 1,153	211						
				212 Supv. 769	212						
				213 Tchrs. 778	213						
				214 Libr. 307	214						
				215 Clerks 307	215						
				216 Tchr. Assts. 288	216						
				410 Nurse 146	410						
				610 Custodians 769	610						
				Total $5,232							
			14	Res. for Enc. (Use detail above)						5 232 00	
				Encumbrances							5 232 00
		1 955 70	14	Payroll Ded. Payable-Fed. Inc. Tax	1620						
				Cash		Ck 8			1 955 70		

(1) The information for this entry is obtained from the payroll record (page 157, chapter VIII).

CASH JOURNAL

Cash Debit	Expenditures Debit	General Debit	Date	Name of Account Title	Post Ref.	No.	General Credit	Revenue Credit	Cash Credit	Encumbrance Liquidation Res. for Enc. Debit	 Encumbrance Credit
		6 361 50	1966 July 15	Fund Balance	2010						
		6 361 50		Payroll Ded. payable	1620						
				Cash		Ck 9			12 723 00		
84 010 00			16	Cash		R4					
				Revenue				84 010 00			
				Taxation & Appropriations Rev. $84,010	11						
	16 40		17	Expenditures							
		20 000 00		Notes Payable	1611						
				Cash		Ck 10			20 016 40		
				Interest on Current Loans - $ 16.40	840						
	97 00		19	Expenditures							
				Cash		Ck 11			97 00		
				Utils. Except Heat-June phone bill - $97.00	640						
	38 00		20	Expenditures							
				Cash		Ck 12			38 00		
				Other Expense (Inst) $38	250						
	18 00		21	Expenditures							
				Cash		Ck 13			18 00		
				Other Expense (Inst) $18	250						
	390 50		22	Expenditures							
				Cash		Ck 14			390 50		
				Instr.-Textbks $390.50	220						
			22	Res. for Encs. (P.O.)						420 00	
				Encumbrances (103)							420 00
				Textbooks - $420	220						
		50 000 00	23	Investments	1550						
				Cash		Ck 15			50 000 00		

Page 4

CASH JOURNAL

Cash Debit	Expenditures Debit	General Debit	Date	Name of Account Title	Post Ref.	No.	General Credit	Revenue Credit	Cash Credit	Encumbrance Liquidation	
										Res. for Enc. Debit	Encumbrance Credit
	156 00		1968 July 25	Expenditures							
				Cash		Ck 16			156 00		
				Maint. (Cont. Svrs) $156	720						
	176 40		26	Expenditures							
				Cash		Ck 17			176 40		
				Teaching Supplies - $176.40	240						
			26	Res. for Enc. (P.O.)						180 00	
				Encumbrances (104)							180 00
				Teaching Supplies-$180	240						
		14 225 00	28	Salaries Payable	1605						
	5 232 00			Expenditures							
				Payroll Ded. payable Retirement	1620		972 85				
				Payroll Ded. payable Fed. Inc. Tax	1620		1 955 70				
				Payroll Ded. payable F.I.C.A.	1620		906 25				
				Payroll Ded. payable Hosp. Insurance	1620		480 00				
				Cash					15 142 20		
				App. & Exp. Ledger Detail:							
				Acct.# Title Amount							
				110 Admin. $ 715	110						
				211 Prin. 1,153	211						
				212 Supv. 769	212						
				213 Teachers 778	213						
				214 Libr. 307	214						
				215 Clerks 307	215						
				216 Tchr. Assts. 288	216						
				410 Nurse 146	410						
				610 Custodians 769	610						
				Total $5,232							

Page 5

CASH JOURNAL

Cash Debit	Expenditures Debit	General Debit	Date	Name of Account Title	Post Ref.	No.	General Credit	Revenue Credit	Cash Credit	Encumbrance Liquidation: Res. for Enc. Debit	Encumbrance Liquidation: Encumbrance Credit
			July 28	Res. for Enc. (use detail above)						5 232 00	
				Encumbrances							5 232 00
		1 955 70	28	Payroll Ded. payable-Fed. Inc. Tax	1620						
				Cash		Ck 18			1 955 70		
	1 945 70		28	Expenditures							
		1 945 70		Payroll Ded. payable	1620						
				Cash		Ck 19			3 891 40		
				Employer Ret. Contribution-$1,945.70	810						
106 00			30	Cash		R5					
				Expenditures	2050		106 00				
				Maint-Cont.Svcs.-$106	720						
10 000 00			31	Cash		R6					
				Investments	1550		9 912 50				
				Revenue				87 50			
				Other Revenue from Local Sources-$87.50	14						
209 574 55 209 574 55	13 950 50 13 950 50	121 928 35 121 928 35	31	Totals			108 093 65 108 093 65	110 110 50 110 110 50	127 249 25 127 249 25	11 114 00 11 114 00	11 114 00 11 114 00
(1501)	(2050)	(✓)					(✓)	(2030)	(1501)	(2011)	(2031)

Analysis of the cash journal

In addition to entering all transactions involving cash in the Cash Journal, the bookkeeper should enter the beginning cash balance (debit) on the first of the month in order to provide a complete picture of the cash position. The beginning cash balance, $69,445.55, is obtained from the Cash account, page 90, chapter V. The offsetting credit in the general credit column would be posted in the General Ledger to the Cash account and would thus cancel out the debit entry. In other words, adding the same amount to both sides of the Cash account does not change the balance of the account. However, entering the beginning cash balance in the Cash Journal does permit the Cash Journal to show, at any given time, the current cash position. The individual entries in the Cash Journal should be the same as those in the Cash account, page 90, chapter V. The postings of the totals of the cash debit and cash credit columns of the Cash Journal to the Cash account in the General Ledger at the end of the month produces the new end-of-month Cash balance.

The Cash Debit column is used whenever cash is received. As indicated above, the individual cash column entries are not posted to the General Ledger individually; only the total of the column is posted to the debit side of the Cash account at the end of the month, which obviously saves labor in posting. The same thing is true of the cash credit column, that is, only the total of the entries is posted to the credit side of the Cash account at the end of the month. If these entries had been entered in the General Journal, six debit postings (cash debit column) and 18 credit postings (cash credit column), for a total of 24 postings, would have been made to the Cash account. If the Cash Journal is used, only two postings to the Cash account are necessary—the total of the cash debit column and the total of the cash credit column.

The Expenditures Debit column, like the cash columns, also is posted in total at the end of the month. Since many different expenditures are recorded in this column, it is obvious that this total is posted to the Expenditures control account. The detail account in the Appropriation and Expenditure Ledger to which each amount is also posted is indicated in the Name of Account column below the credit entry; make individual postings as you go along, after you enter them in the Journal.

The General Debit column, as its title implies, is used for debits in general. Unlike entries in the cash columns and the expenditure debit column, each entry in the general debit column is posted individually to the account shown in the name of account column. Notice that in the latter column opposite each entry in the general debit column, the postings are made to many different accounts, each of which does not necessarily have anything in common with any other. Since each entry is posted individually, the total of the column is not posted.

The Number column is used to indicate the physical source of the entry. Since most cash is paid out by check or warrant, the check or warrant number is entered. The receipt number is used for cash received.

The Post Reference column is used to indicate the number of the account to which posted, and also to show that posting has been completed. It should be noted here that there must never be a post reference during the month for the Cash, Expenditures Control, and Revenue Control accounts because these accounts are posted only at the end of the month from the totals of columns 1, 2, 5, and 6.

The General Credit column, like the general debit column, is for entries of a general nature. That is to say, no two entries in this column necessarily have anything in common, whereas all of the entries in the expenditure column do. Regardless of what the money was spent for, each entry in the expenditure column represents an expenditure. The same relationship applies in the cash columns, that is, each entry, whether debit or credit, deals with cash. The revenue credit column also contains entries which all have something in common: they represent revenue. Again, this lack of a common nature in the general credit column makes it necessary to post each entry individually. The total is not posted because it would be like trying to add apples, oranges, and plums.

The Revenue Credit column has the same relationship to the Revenue control account as the expenditure debit column has to the Expenditure control account. Therefore, the total of the column is posted at the end of the month to the Revenue control account. Further, the type of revenue is indicated and recorded by posting to the detail account named in the name of account column.

The Cash Credit column is used whenever cash is paid out, and only the total is posted at the end of the month.

The Encumbrance Liquidation section has two columns—Reserve for Encumbrances Debit and Encumbrances Credit. This section is included with the Cash Journal to provide for liquidation of encumbrances for each transaction involving a cash expenditure, and for which an amount was originally encumbered. As in the General Journal, the entry liquidating the encumbrance immediately follows the entry recording the expenditure.

These journal entries, like all journal entries, have a debit and credit part. Let us now look carefully at the following transactions because they include entries in all of the columns of the Cash Journal (see p. 145):

July 3. The amount of the payment, $3,673.25, was entered in the general debit column because there is no special column for accounts payable. The latter account is indicated in the name of account column as being the account to which to post the debit entry. The number 1610 in the post reference column indicates that the amount in the general debit column, $3,673.25, has been posted to the Accounts Payable account, No. 1610, in the General Ledger. Ck 1–4 (checks 1 through 4) is entered in the number column to indicate the numbers of the checks used to pay the vendors. Finally, the entry in the cash credit column indicates that the asset cash has been decreased by $3,673.25.

July 5. In this instance revenue was received in the amount of $675, and thus an entry was made in the cash debit column. The credit entry was made in the revenue credit column in order to have the control account reflect this increase. The detail was posted to Tuition from other school districts, account No. 80, as shown in the name of account and post reference columns, respectively. R1 in the number column means this was receipt No. 1.

July 8. Again cash has been received, this time in the amount of $20,000. As in the preceding transaction, the entry is made in the cash debit column. However, note that in this case the credit is entered in the general credit column. This cash was not revenue, and, in the absence of a special column for notes payable, the entry has to be made in the column for miscellaneous entries, general credit. The entry in the name of account column indicates the account to which the general credit entry should be posted. R2 is the receipt number, and 1611 in the post ref. column is the account to which it is posted.

July 10. An expenditure of $48.50 has been made and has to be reflected both in the control account and in the detail account. Therefore, in addition to the entry in the expenditures debit column, an entry also has to be made in account No. 720, Maintenance of Plant—Contracted Services. This is indicated by entering the latter in the name of account column. After posting, account No. 720 is entered in the post reference column. Ck 5 is the number of the check written for this expenditure, and $48.50 in the cash credit column indicates that cash has decreased. Again, remember that only the totals of the expenditures debit and cash credit columns are posted.

Most entries in this journal would be similar to the four explained above. The number of columns in the journal depends on the need of the individual school district; special columns can be added if needed. The main consideration is the frequency of certain types of transactions.

If a Cash Journal had been used in chapter V with the entries as indicated in this chapter, the only difference in the ledger accounts would be the post reference column, that is, instead of showing J and the page number, it would show CJ (Cash Journal) with the page number.

Posting from the cash journal

After adding each column in the Cash Journal, post the appropriate column totals as indicated above. Since each debit entry or entries should have an equal credit entry or entries, then, obviously, the total of all the debit columns should equal the total of all the credit columns. In addition to furnishing the column totals to post, this also verifies the accuracy of the journal entries. The column totals are first entered in pencil "footings"; if the total debits equal the total credits, the permanent entries are made, the date is entered, the word "Totals" is written in the name of account section, and a double line drawn as indicated.

As has been pointed out previously, special columns are posted *only* at the end of the month when the totals are posted to the account named in the heading of the column. Therefore, the total of the cash debit column, $209,574.55, would be posted as a debit to the Cash account, No. 1501. The post reference for this entry is the number of the Cash account, No. 1501, and, when posting has been completed, this number is inserted in parentheses below the cash debit column of the Cash Journal (see p. 149). The same procedure applies to the total of the expenditures debit column, that is, its total is posted to the Expenditures control account as a debit. The account number of the latter, No. 2050, is entered below the column total as the post reference.

A checkmark is entered in parentheses below the general debit and general credit columns to indicate that the items in the columns were posted individually.

The revenue credit and cash credit column totals are posted in the same manner as the cash debit and expenditures debit column totals. The post reference is similarly derived and entered below the column totals.

Of the 31 transactions listed in chapter V, 24 involved cash, and all of these were entered in the Cash Journal. The cash position can be computed at any time by deducting the total of the cash credit column from the total of the cash debit column.

In summary, then, the Cash Journal has these advantages: (1) saves labor in posting, which results in less chance of clerical error; (2) includes all of the cash items in one place; (3) provides a ready-made analysis as part of the formal records; (4) permits a daily control of cash balance; and (5) facilitates the preparation of the monthly cash statements.

Bank reconciliation

In all school districts, the bank account for every fund should be reconciled each month. The bank reconciliation follows exactly the same pattern the reader might use to reconcile his own personal account at a bank. The form illustrated on page 155 could be used for this purpose.

Copies of validated deposit slips covering deposits not reflected on the bank statement are used to complete part 2 of the Bank Reconciliation form. Under part 4 the outstanding checks are determined by comparing returned checks with the record of those issued during the month as well as with those outstanding at the beginning of the month. This process will indicate which checks remain outstanding at the end of the current month. After completing 1 through 4 of this form, the *Adjusted bank balance* (5), should equal the *Balance per books* (6). If these two figures do not agree, it will be necessary to locate the cause of the error—made either by the bank or by the school district—and make the necessary corrections. One cause which may easily be overlooked is a charge made by the bank but not entered on the school district's records. When the error has been located and corrected, the figures on the bank reconciliation should also be corrected so that item 5 will equal item 6.

HYPOTHETICAL SCHOOL DISTRICT
XVILLE, U.S.A.
BANK RECONCILIATION

Bank ____________________

1. Balance per bank statement, ____________ 19__ $________
2. Plus Deposits not credited on bank statement:

Date	*Amount*	*Date*	*Amount*

3. Total—Balance plus deposits not credited on bank statement:
4. Less Outstanding checks:

Check No.	*Amount*	*Check No.*	*Amount*	*Check No.*	*Amount*
	$		$		$

5. Adjusted bank balance, ____________ 19__ $________
6. Balance per books, ____________ 19__ $________

Summary

(1) A journal which is used for recording transactions of like nature is called a **Subsidiary Journal.**

(2) A **Cash Journal** is the subsidiary journal used to enter all transactions involving cash.

(3) A **Bank Reconciliation** is a comparison of the bank statement and school district book balances; one should be made each month.

CHAPTER VIII

Payroll Procedures

Two of the transactions in chapter V involve paying salaries to all personnel of the school district. It should be noted that there is a two week interval between these entries, and that there are 26 paydays annually. Whether the employees are paid monthly, semimonthly, or every two weeks, the same basic payroll procedures and methods are used. Payroll journal entries such as those illustrated in chapter V result from a payroll payment order or record. This is a worksheet which serves to bring together all of the information pertaining to salary and deductions for each employee, and an example is shown on page 157. More or fewer columns may be used according to the needs of the individual school district.

There are many different Payroll Record formats that might be used. A relatively small school district might list all employees alphabetically in one Payroll Record, with an expenditure classification summary to provide totals for the payroll journal entry. Many school districts use one payroll for certificated personnel and another for noncertificated personnel A large district might have a section for each school in the district. In the example on page 157, the Payroll Record is sectionalized, that is, there is a separate section for each salary expenditure category. This format provides for totals by expenditure classification as well as an overall expenditures total.

The decision on whether one consolidated payroll record or several more specialized ones will be used depends on the number of employees and the number of different expenditure classifications, whether or not all employees are on the same payroll cycle, and whether it is desired to have individual expenditure classifications for each separate school for comparative purposes. Whatever subdivisions are used, the totals of the various columns and sections must be brought together into summary totals as shown on page 157. These summary totals form the support for General Journal entries such as No. 14 on page 71 of chapter V.

The Salaries Payable section of the payroll record provides for recording preparation of paychecks for personnel whose salaries have

Hypothetical School District - Payroll Record

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
				Adjustment				Deductions					
NAME	Pos.	Exp. Clas.	Period Gross	Code	Amount	Adjusted Gross	TOTAL	W.T.	Ret.	Soc. Sec.	Ins.	Net Pay	Warrant
ADMINISTRATION:													
Conrad, Kenneth	Supt.	110	542 00			542 00		64 96	39 30	19 64	7 50	410 60	1649
White, Delores	Sec.	110	173 00			173 00							1650
Total		110					715 00						
PRINCIPALS:													
Cleveland, Harriet M.	Prin.	211	368 00			368 00		36 96	25 80	13 34	7 50	284 40	1651
Kitchens, Robert	Prin.	211	402 00			402 00							1652
Osborn, Walter	Prin.	211	383 00			383 00							1653
Total		211					1,153 00						
SUPERVISORS:													
Castillo, Louis A.	Supv.	212	424 00			424 00		41 46	29 70	15 37	7 50	329 97	1654
Spencer, John	Supv.	212	345 00			345 00							1655
Total		212					769 00						
TEACHERS:													
Altman, Andrew A.	Tchr.	213	298 00			298 00		30 80	19 01	10 80	7 50	229 89	1656
Archer, Robert G.	Tchr.	213	250 00			250 00							1657
Bond, Beatrice S.	Tchr.	213	230 00			230 00							1658
Total							778 00						
LIBRARIAN:		214	307 00				307 00						
CLERKS:		215	307 00				307 00						
OTHER SALARIES:		216	288 00				288 00						
NURSE:		410	146 00				146 00						
OPERATION OF PLANT:		610	769 00				769 00						
TOTAL EXPENDITURES			5,232 00				5,232 00						
SALARIES PAYABLE:													
Aldinger, John B.	Tchr.	S/P	215 00			215 00		22 82	17 20	7 79	6 50	160 69	1659
Ardmore, Beverly C.	Tchr.	S/P	256 00			256 00							1660
TOTAL SALARIES PAYABLE							14,225 00						
TOTAL DEDUCTIONS & NET PAY								1955 70	972 85	906 25	480 00	15,142 20	

For illustration, only the first line entry in each expenditure classification has the deduction section completed. In practice, it would be necessary to complete the deduction section for each line entry.

been charged to the previous year as explained on page 70, chapter V. Note that, in column 3, S/P has been entered. This means salaries payable; an expenditure account number is not entered because the appropriate expenditure accounts were entered in June when the salaries payable were "set up."

Preparation of this Payroll Record is the first step in payroll accounting. The employees are listed in alphabetical or other predetermined order in the name of employee column, under each classification, and their position is entered in the next column—teacher, custodian, secretary. The number of the account to be charged in the Appropriation and Expenditure Ledger is entered in the expenditure classification column. The annual salary for each employee is obtained from the contractual agreement between the school board and each employee, a copy of which should be on file in the business office. The annual salary divided by the number of pay periods yields the period gross earnings (col. 4). If some employees are paid on an hourly basis, the gross earnings may well vary for each pay period and many of the deductions will have to be recalculated each time.

Adjustments to gross salary

There may be additional salary payments due individuals for services that are not included in their annual contract. Instructional personnel are sometimes paid for extracurricular services on an "as rendered" basis, particularly for coaching or other extra duties. Noninstructional personnel usually are paid on an overtime basis for such duties as opening a building at night for community programs and special bus trips. These payments are entered as an addition in the adjustment column and are coded to indicate the reason for the payment.

There are also deductions that must be made from the gross salary, representing services which were included in the annual contract but which were not performed. Under circumstances determined by the school board, both instructional and noninstructional personnel may be granted personal leave without pay, or may use sick leave in excess of the number of days to which they are entitled. These amounts are entered as a deduction in the adjustment column and are also coded to indicate the reason for the deduction. The adjusted gross pay for this period is then entered in column 7.

Deductions from adjusted gross salary

The figure entered in the adjusted gross salary column is used as the basis for calculating the deductions to be made for withholding taxes and other similar items that are dependent on the actual earnings of the individual. The more common of these deductions—

Federal and State income tax, retirement, and social security—are less subject to change by the employee because the rate of these deductions is set by law. Of course, changes are occasionally necessary when the number of exemptions claimed for income tax deduction purposes changes. An individual may also increase the amount by agreement with the employer and a special entry on Federal Form W-4, Employee's Withholding Exemption Certificate. This form provides the information needed to compute the income tax deduction and is completed by the employee showing the exemptions claimed. The Internal Revenue Service and others provide employers with tables which show how much must be withheld according to the individual's salary, number of exemptions claimed, and additional voluntary deductions, if any.

The number and purpose of other payroll deductions will vary from district to district.

When possible, deductions should be computed and spread equally over the pay periods of the year. Obviously, it is advantageous to have the same deduction for each item each pay period, and as few changes in the number of deductions as possible; therefore, changing and/or adding voluntary deductions such as hospitalization, savings bonds, or professional association dues might well be limited to certain periods during the year, for example, semiannually or quarterly. Generally, the school board approves the handling of such voluntary deductions before the finance officer can provide this service. It is also good practice to require from the employee a written authorization for voluntary deductions or for changes therein; this provides an official record and might preclude later misunderstandings.

Payment of amounts due

The net amount due to each individual is determined by subtracting the total of the deductions shown in columns 9 through 12 from the adjusted gross pay shown in column 7. This figure is then entered in column 13 and the warrant or check is written to the employee for this amount. The check number is entered in column 14.

The total of each of columns 9 through 12 indicates the amount that should be remitted to the agency for whom the deduction was made for this payroll. In the illustration shown on page 157, for example, the amount of $1,955.70 should be remitted to the Internal Revenue Service and $972.85 to the retirement system, and so on. The method of journalizing these amounts is illustrated in chapter V. To prevent incurring penalty or interest charges, the finance officer needs to be thoroughly familiar with remittance date requirements of the Internal Revenue Service and other agencies.

On page 73, chapter V, the second entry on July 14 involves liquidating encumbrances for the July 14 payroll. The entire fiscal year payroll was encumbered in the first journal entry on page 63, chapter V. With each succeeding payroll, a similar entry will be made to liquidate the amount of the encumbrance that has become an expenditure. This is consistent with the handling of items purchased: when the bill is paid, the expenditure is recorded and the encumbrance is liquidated.

The reason for encumbering the entire fiscal year payroll and not, for example, Teaching Supplies, is that the payroll includes the total of all salary contracts, each of which is a contractual obligation. Therefore, this total is a definite amount, and, if there are no resignations or additional personnel hired, agrees exactly with the amount actually expended for the year for salaries. The amount to be expended for Teaching Supplies, however, like that in most other expenditure categories, is not nearly as ascertainable and thus should not be encumbered for an entire year.

It might be well to review again the reason for the encumbrance procedure. Essentially, encumbrances serve to commit funds. When the amount of committed funds is added to actual amounts expended and the sum subtracted from the budget appropriation, the yield is the amount of uncommitted funds. Thus, the financial picture is complete. If entries were not made for commitments, the school district would, at best, have only a rough estimate of the amount of its uncommitted funds.

To facilitate the payroll encumbrance and liquidation, at the beginning of the fiscal year a summary such as that illustrated on page 161 is prepared. The basic requirements of this summary are to provide (a) a complete accounting for all personnel whose salaries should be encumbered, (b) a grouping of these salaries to show periodic and annual salary totals by budgeting classifications, and (c) a record of changes in personnel and salaries. The Payroll Encumbrance summary illustrates the adjustments in encumbrances totals including the resignation of Miss Jane Jones on the 24th and the signing of a new contract with Miss Mary Moore on the 27th.

The relationship between the Encumbrance Summary, the Payroll Record on page 157 of this chapter, and the July 14 journal entry on page 71, chapter V, should be identified. It should be noted that the same amount appears for each expenditure classification. For instance, $715 is shown in all three for account No. 110, Administration. As mentioned previously, the Payroll Record serves as the source for the journal entry recording the payroll expenditure. This journal entry is then automatically followed (see p. 73, chapter V) by the journal entry liquidating the encumbrances for the exact amount of the expenditures. By referring to the Total Encumbered line in the Encumbrance Summary, and comparing the entry in the biweekly column for each expenditure classification with the corresponding amount of encumbrance liquidated, the accuracy of both the expenditure and the encumbrance liquidated can be verified.

HYPOTHETICAL SCHOOL DISTRICT
PAYROLL ENCUMBRANCE BI-WEEKLY AND ANNUAL SUMMARY

Fiscal Year 1966 - 1967

NAME	Account 110		Account 211		Account 212		Account 213		Acc
	Bi-weekly	Annual	Bi-weekly	Annual	Bi-weekly	Annual	Bi-weekly	Annual	Bi-wee
ADMINISTRATION									
Conrad, Kenneth	542 00	14,105 00							
White, Delores	173 00	4,495 00							
PRINCIPALS									
Cleveland, Harriet M.			368 00	9,575 00					
Osborn, Walter			383 00	9,975 00					
Kitchens, Robert			402 00	10,450 00					
SUPERVISORS									
Castillo, Louis A.					424 00	11,025 00			
Spencer, John					345 00	8,975 00			
Teachers									
Altman, Andrew A.							298 00	7,730 00	
Archer, Robert G.							250 00	6,500 00	
Bond, Beatrice S.							230 00	5,980 00	
TOTAL ENCUMBERED	715 00	18,600 00	1,153 00	30,000 00	769 00	20,000 00	15,003 00	390,000 00	
7/24/64 Jones, Jane Resignation							-191 00	5,000 00	
TOTAL ENCUMBERED	715 00	18,600 00	1,153 00	30,000 00	769 00	20,000 00	14,812 00	385,000 00	
7/27/64 Moore, Mary Contract							+207 00	+5,400 00	
TOTAL ENCUMBERED	715 00	18,600 00	1,153 00	30,000 00	769 00	20,000 00	15,019 00	390,400 00	

For purposes of illustration the Payroll Encumbrance Summary shown above represents only the first page of several pages. The totals for columns are included in order that the reader may relate them to the total figures for salary accounts as listed in General Journal Entry #1.
NOTE: This is only the first page of several, and other columns would appear on the right.

It is mentioned on page 158 that deductions are sometimes made from an individual's salary because of personal leave or sick leave in excess of the number of days to which he is entitled. In this instance, just as in the case of the $48.50 expenditure in the example on page 68, chapter V, the amount of encumbrance liquidated is the full amount originally encumbered and applicable to the expenditure in question. Any increase in remuneration covered by a change in the salary contract would be added to the Encumbrance Schedule, and thus would be liquidated as the expenditures are recorded.

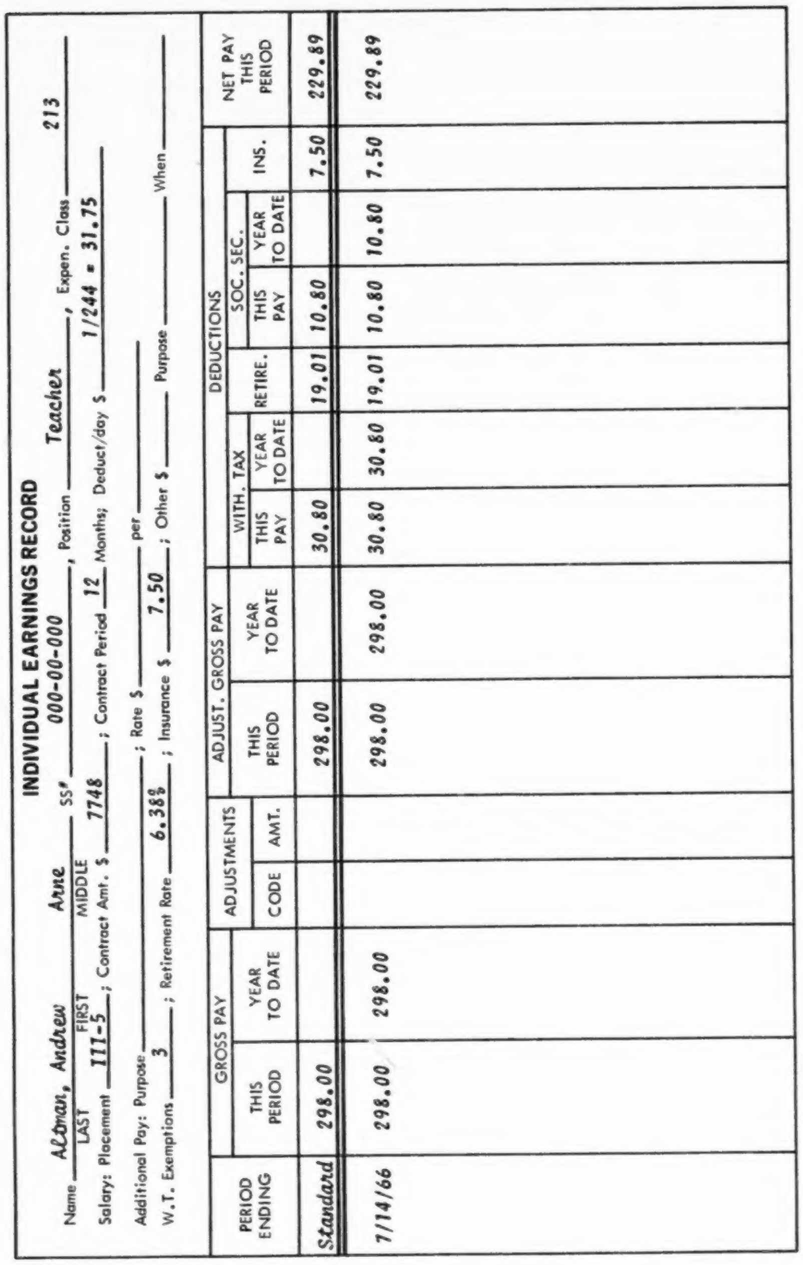
Individual earnings record

An Individual Earnings Record is required to report income for Federal income tax and other purposes. .It usually is arranged to parallel the payroll form, and is similar to the one illustrated on page 163. It is customary to use column footings to show the required totals on hand-posted records, and to use separate "Year to Date" columns in machine accounting. Usually the heading of the Individual Earnings Record provides spaces for recording all of the information needed to calculate the gross pay for the individual.

When the Individual Earnings Record is used to prepare the basic payroll document each month, or when the payroll is based on "exceptions" (reporting changes only), a "Standard Entry" line is frequently included on the earnings record. This procedure eliminates the necessity for retyping unchanged figures each month. The figures are entered when the contract has been signed and the standard deductions are determined. From that point on, it is necessary only to use the same amounts each month unless an exception, such as a change in salary rate or a change in deduction(s), is authorized.

In the illustration on page 163, the salary placement is shown as III–5. The roman numerals indicate the academic level achieved such as I—bachelor's degree, II—master's degree, III—master's degree plus 15 semester-hours, IV—doctor's degree. The arabic numerals represent the number of years of experience recognized by the district for salary purposes. The contract period may be shown in this district either as 10, 11, or 12, depending on the number of months' work required by the employee's contract. The amount to be deducted per day for excess sick or personal leave is usually calculated and entered. The other spaces on the form are completed as indicated and are self-explanatory. The additional pay rate is usually shown on a per hour or per day basis for noncertificated employees. The Finance Officer generally needs only such information as is shown in our example, but may add more if the form is to be used as a personnel record. Completion of all individual earnings records is the last step in the payroll process for a given pay period.

The earnings record is footed periodically to prove the accuracy of the postings and official totals are usually taken at the end of the fiscal year and at the end of the calendar year. Fiscal year totals are usually required in connection with the annual audit to prove the accuracy of the amount paid as compared with the contracts. Calendar year totals are required for reporting withholding tax or social security information to the Federal, State, or other agencies involved.



INDIVIDUAL EARNINGS RECORD

Name *Altman, Andrew* *Arne* SS# *000-00-000*, Position *Teacher*, Expen. Class *213*
LAST FIRST MIDDLE
Salary: Placement *III-5*; Contract Amt. $ *7748*; Contract Period *12* Months; Deduct/day $ *1/244 = 31.75*
Additional Pay: Purpose ____; Rate $ ____ per ____
W.T. Exemptions *3*; Retirement Rate *6.38%*; Insurance $ *7.50*; Other $ ____ Purpose ____ When ____

PERIOD ENDING	GROSS PAY		ADJUSTMENTS		ADJUST. GROSS PAY		DEDUCTIONS						NET PAY THIS PERIOD
							WITH. TAX			SOC. SEC.			
	THIS PERIOD	YEAR TO DATE	CODE	AMT.	THIS PERIOD	YEAR TO DATE	THIS PAY	YEAR TO DATE	RETIRE.	THIS PAY	YEAR TO DATE	INS.	
Standard	298.00				298.00		30.80		19.01	10.80		7.50	229.89
7/14/66	298.00	298.00			298.00	298.00	30.80	30.80	19.01	10.80	10.80	7.50	229.89

SUMMARY

(1) A **Payroll Record** is a worksheet which includes all of the information pertaining to salary and deductions for each employee.

(2) A complete accounting for all personnel having salaries to be encumbered, a grouping of these salaries to provide periodic and annual salary totals by budgeting classifications, and provisions for recording changes in personnel and salaries are included in the **Payroll Encumbrance Biweekly and Annual Summary.**

(3) The **Individual Earnings Record** is maintained to keep a record of each employee's earnings and withholdings.

CHAPTER IX

Cafeteria Fund Accounting

One of the many responsibilities in the administration of a school district is the management of the school lunch and food service program.

The management of the food services program requires that records be kept of all financial transactions. Since the school district receives revenues for the operation of the food service from such sources as sales to pupils and teachers, and reimbursement from Federal, State, and sometimes local sources, a special fund is recommended with separate self-balancing accounts to give better financial control and a clearer presentation of revenues and expenditures. Recording these specialized transactions in a separate fund, often called the Cafeteria Fund, helps the school administration to analyze the operation and determine the cost of food services.

The principles, procedures, and practices are basically the same as those illustrated in previous chapters for the General Fund. One notable addition is a report or financial statement called the "Profit and Loss Statement" (sometimes called the "Revenue and Expenditure Statement" or the P. & L. Statement) which is illustrated later in this chapter.

The periodical inventory method

Most school food service operations use what is known as the periodical inventory method. An end-of-accounting-period inventory is determined by counting and listing all food and other supplies on hand for processing and resale the following month, and pricing those items in terms of cost. This procedure is called "taking a physical inventory."

The inventory thus determined is shown in the balance sheet as an asset. The bookkeeping procedure in the periodical inventory method requires the keeping of an Inventory account which will have a debit balance at the beginning of the month of

	Inventory	
10/1	6,000	----

and the Purchases account will have a zero balance at the beginning of the month:

Purchases
10/1 ----|----

In the periodical inventory method no entry is made to the inventory account during the month. Entries are made at the end of the month to clear off the balance of the beginning inventory, and a separate entry is made to record the new "end-of-the-month" inventory amount. Throughout the month purchases are debited to the Purchases account, and this account is closed each month in the same manner as all other expense accounts are.

The financial transactions may be recorded in a separate General Journal as illustrated previously for the General Fund. Often a specifically designed set of books of original entry is used in a food service operation.

Recording the original assets and liabilities, the estimated budget for the year's operation, the receipt of the daily revenue from the school cafeterias as well as Federal and State subsidies, purchases, payroll, and all other routine transactions is done in the same manner as previously discussed. A repetition of a series of such transactions involving all the individual accounts will not be made at this point. Instead it will be assumed that the last day of the month has arrived and the final balances in the individual accounts will be used to prepare the monthly closing statements.

The trial balance

The Trial Balance shown below reflects the balances of the individual accounts, without any adjustments, at the end of the month.

HYPOTHETICAL SCHOOL DISTRICT
CAFETERIA FUND
TRIAL BALANCE (BEFORE ADJUSTMENTS)
October 31, 1966

	Debit	Credit
Cash:		
In Bank	$1, 950	
Cashiers Change	200	
Petty Cash	50	
Accounts Receivable:		
Federal Platter Reimbursement	500	
State Milk Reimbursement	------	
Food and Supply Inventory—October 1, 1966	6, 000	
Accounts Payable		$4, 800
Fund Balance—October 1, 1966		3, 500
Revenue:		
Sale of Lunches		30, 000
Federal Platter Reimbursement		300
State Milk Reimbursement		700
Food and Supply Purchases	17, 100	

	Debit	Credit
Freight and Cartage	$100	
Labor	9, 600	
Payroll Overhead	1, 000	
Equipment Maintenance	200	
Miscellaneous Expense	2, 600	
	$39, 300	$39, 300

Periodical inventory method—working papers

On the next several pages are the various stages of working papers for closing the accounts and developing the financial reports at the end of an accounting period. Observe the following features in the working papers:

(1) The first papers carry the final balance previously shown.

(2) The column heading *Profit and Loss* has been used in place of *Revenue and Expense.* Either terminology is considered acceptable.

(3) Columns for the adjusted trial balance have been omitted. Many accountants prefer to extend the trial balance amounts, as adjusted by the data in the adjustments column, directly to the statement (profit and loss and balance sheet) columns.

(4) All the accounts in the ledger except the Profit and Loss account have been listed in the trial balance, including accounts which have no balance when the trial balance is prepared. In the ledger of an established school district fund, there may be several accounts that normally have no balances when the trial balance is prepared but acquire balances from the adjusting entries. In a Cafeteria Fund, Federal or State reimbursement accounts are an example. As platter or milk count totals are determined at the end of the month, the applications for reimbursements are filed and thereby create accounts receivable. The reader may find it desirable to list such "no balance" accounts in the statement order in the trial balance of the working papers; this procedure, by avoiding the addition of account titles below the trial balance, produces working-paper information more nearly in statement order.

Stage 1. The working paper identified as stage 1 shows the condition of the papers after the following steps have been taken:

(1) all working paper headings are entered,

(2) the trial balance is entered,

(3) the adjustments are entered.

The journal entry for the adjustment shown in stage 1 is as follows:

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 Oct. 31	Accounts Receivable-State Milk Reimbursement		200 00	
	Revenue - State Milk Reimbursement			200 00
	To record milk reimbursement due from			
	State for week of Oct. 25-31, 1966			

Stage 2. The working paper identified as stage 2 shows how it appears after the completion of the following additional steps:

(1) The balances in the Inventory (beginning) and Purchases accounts appearing in the trial balance have been extended to the profit and loss debit column. The sum of these two debits ($6,000+$16,100=$22,100) $22,100, is the cost of goods which were available for processing or resale during the month;

(2) The ending inventory, $6,400, which *does not appear* in the trial balance, has been entered in the working papers in two places;

(a) in the profit and loss column, because it will appear in the profit and loss statement as an element of the computation of the cost of goods sold; it is entered in the credit column because it is a deduction from the opening inventory and purchases, which are debits. The profit and loss columns now have a debit balance of $16,800, the cost of goods sold;

(b) in the balance sheet debit column, because the ending inventory will be shown in the balance sheet as an asset.

Stage 3. The working paper identified as stage 3 shows the completion of papers after the following steps:

(1) All trial balance column and adjustment column figures have been transferred to their proper places in the profit and loss columns, the fund balance columns, and the balance sheet columns;

(2) The net revenue balancing figure on the debit side of the profit and loss columns is balanced by a credit entry in the fund balance columns;

(3) The sum of the credit balances of the fund balance at the beginning of the period plus the net revenue credit amount are balanced in the fund balance columns by a debit entry which requires a credit entry on the balance sheet to show the fund balance as of October 31 for the end of the accounting period.

Many school districts receive donated food commodities for use in the school lunch program. Such commodities are usually made available by the U.S. Department of Agriculture. Usually the only costs to the school district are freight, delivery, and storage. The receipt of these commodities is not recorded as income; however, an entry, based on current market prices, should be made to show acquisition and valuation of the donated assets (debit the Donated Inventory account and credit the Fund Balance account). This valuation would be used for balance sheet and inventory purposes. An inventory of surplus commodities is required and is kept separate from the purchased inventory.

Closing entries

The closing entries under the periodical inventory method are shown below. Observe that, in these entries, the beginning inventory is removed from the Inventory account by a credit, and the ending inventory is debited to the Inventory account.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 Oct. 31	Revenue		31,200	00		
	Inventory - Oct. 31, 1966		6,400	00		
	Profit and Loss				37,600	00
	To close the Revenue account and set					
	up the ending inventory.					
31	Profit and Loss		36,600	00		
	Inventory - Oct. 1, 1966				6,000	00
	Food and Supply Purchases				17,100	00
	Freight and Cartage				100	00
	Labor				9,600	00
	Payroll Overhead				1,000	00
	Equipment Maintenance				200	00
	Miscellaneous Expense				2,600	00
	To close the expense accounts and					
	remove the beginning inventory from					
	the Inventory account.					
31	Profit and Loss		1,000	00		
	Fund Balance				1,000	00
	To close the Profit and Loss account.					

After the above entries are posted, the Inventory account and the Profit and Loss account will appear as follows:

Inventory

10/1	6,000	---		
10/31			6,000	---
10/31	6,400	---		

Profit and Loss

10/31		37,600	---
10/31	36,600	---	
10/31	1,000	---	

Hypothetical School District, Cafeteria Fund **STAGE 1**

Working Papers

For the Month of October, 1966

	Trial Balance		Adjustments		Profit & Loss		Fund Balance		Balance Sheet	
Cash:										
In Bank	1,950									
Cashiers Change	200									
Petty Cash	50									
Accounts Receivable:										
Federal reimbursement	500									
State Milk reimbursement	--		200(a)							
Food & Supply Inventory-Oct.1,1966	6,000									
Accounts Payable		4,800								
Fund Balance - Oct. 1, 1966		3,500								
Revenue:										
Sale of Lunches		30,000								
Federal reimbursement		300								
State Milk reimbursement		700		200(a)						
Food & Supply Purchases	17,100									
Freight & Cartage	100									
Labor	9,600									
Payroll Overhead	1,000									
Equipment Maintenance	200									
Miscellaneous Expense	2,600									
	39,300	39,300	200	200						
(a) To record adjustment of										
accrued revenue on State Milk										
Reimbursement for week of										
Oct. 25-31, 1966.										

STAGE 2

Hypothetical School District, Cafeteria Fund
Working Papers
For the Month of October, 1966

	Trial Balance		Adjustments		Profit & Loss		Fund Balance		Balance Sheet	
Cash:										
In Bank	1,950									
Cashiers Change	200									
Petty Cash	50									
Accounts Receivable:										
Federal reimbursement	500									
State Milk reimbursement	--		200(a)							
Food & Supply Inventory-Oct.1,1966	6,000				6,000					
Accounts Payable		4,800								
Fund Balance - Oct. 1, 1966		3,500								
Revenue:										
[illegible]		30,000								
Federal reimbursement		300								
State Milk Reimbursement		700		200(a)						
Food & Supply Purchases	17,100				17,100					
Freight & Cartage	100				100					
Labor	9,600									
Payroll Overhead	1,000									
Equipment Maintenance	200									
Miscellaneous Expense	2,600									
	39,300	39,300	200	200						
Food & Supply Inventory-Oct.1,1966						6,400			6,400	
(a) To record adjustment of										
accrued revenue on State Milk										
Reimb for week of Oct.25-31,1966										

STAGE 3

Hypothetical School District, Cafeteria Fund
Working Papers
For the Month of October, 1966

	Trial Balance		Adjustments		Profit & Loss		Fund Balance		Balance Sheet	
Cash:										
In Bank	1,950								1,950	
Cashiers Change	200								200	
Petty Cash	50								50	
Accounts Receivable:										
Federal Reimbursement	500								500	
State Milk Reimbursement	--		200(a)						200	
Food & Supply Inventory-Oct.1,1966	6,000				6,000					
Accounts Payable		4,800								4,800
Fund Balance - Oct. 1, 1966		3,500						3,500		
Revenue:										
Sale of Lunches		30,000				30,000				
Federal Reimbursement		300				300				
State Milk Reimbursement		700		200(a)		900				
Food & Supply Purchases	17,100				17,100					
Freight & Cartage	100				100					
Labor	9,600				9,600					
Payroll Overhead	1,000				1,000					
Equipment Maintenance	200				200					
Miscellaneous Expense	2,600				2,600					
	39,300	39,300	200	200						
Food & Supply Inventory-Oct.31,1966						6,400			6,400	
Net Income for Month of Oct., 1966					1,000			1,000		
					37,600	37,600				
Fund Balance - Oct. 31, 1966							4,500			4,500
							4,500	4,500	9,300	9,300

(a) To record the adjustment of accrued revenue on State Milk Reimbursement for week of Oct. 25-31, 1966.

Taking the figures from the working papers, the financial statement called the Profit and Loss Statement would then appear as follows:

HYPOTHETICAL SCHOOL DISTRICT
CAFETERIA FUND

STATEMENT OF PROFIT AND LOSS
FOR THE MONTH OF OCTOBER 1966

Revenue:		
Sale of Lunches	$30,000	
Federal Reimbursement	300	
State Milk Reimbursement	900	$31,200
Deduct Cost of Food Sold:		
Beginning Inventory October 1, 1966	$6,000	
Food and Supply Purchases	17,100	
Freight and Cartage	100	
Cost of Food and Supplies Available for sale	$23,200	
Less Ending Inventory October 31, 1966	6,400	
Cost of Food Sold		16,800
Gross Profit		$14,400
Deduct Operating Expenses:		
Labor	$9,600	
Payroll Overhead	1,000	
Equipment Maintenance	200	
Miscellaneous Expense	2,600	
Total Operating Expense		13,400
Net Income for Month of October 1966		$1,000

Again taking the figures from the working papers, the Balance Sheet for October 31, 1966, would appear as follows:

HYPOTHETICAL SCHOOL DISTRICT

BALANCE SHEET

CAFETERIA FUND

October 31, 1966

Current Assets:		Current Liabilities:	
Cash	$2,200	Accounts Payable	$4,800
Accounts Receivable:		Fund Balance	4,500
Federal	500		
State	200		
Food and Supply Inventory	6,400		
	$9,300		$9,300

In summary, the financial transactions for a Cafeteria Fund may be kept, using the same principles, procedures, and practices as were used for the General Fund. The addition of the Profit and Loss Statement is an essential management tool alerting the school food service director and the school administrator to any situation where expenses start to exceed revenues, allowing them to take the necessary corrective action.

Summary

Cafeteria Fund accounting differs from other public school accounting in that (1) the statement relating to revenue and expenditures is called the **Profit and Loss Statement.** (2) sales (of school lunches) are major sources of revenue; and (3) a monthly (periodic) inventory is required. However, the same principles apply to Cafeteria Fund accounting as apply to the General Fund.

CHAPTER X

Debt Service Accounting

Most school districts, like most individuals, find it necessary to borrow money when building new facilities. An individual usually signs a "mortgage," but a school district customarily sells "bonds" or "revenue certificates."

A mortgage is an agreement entered into between the party borrowing the money and the lender, whereby the borrower's interest in the property is transferred to the lender for the purpose of creating a security for the debt. If the debt is not paid, the lender can, through proper legal procedures, have the property sold and the proceeds used to repay the amount owed. Because the market for school buildings is small, and since the school district usually needs, in addition to the construction cost of the building, money for furnishing, equipping, grading, paving, etc., mortgages are not normally used in public school financing.

A bond is simply a promise to pay. Its only value is based on the integrity of the school district and on the security of the sources of income from which the school district plans to repay. The charge the lender makes for the use of the money (interest) is determined by his opinion of those two factors and also by other opportunities to invest money (the conditions of the bond market, for instance).

Bonds may be divided into two broad categories on the basis of the source of revenue used for repayment. If the payment is to come only from income produced by the building, the term "revenue certificates" is generally used. This type of financing might be used in connection with a stadium where admission will be charged or for a dormitory where rent will be collected from the occupants. It is not usually used in connection with school buildings; however, in a few cases some other agency erects the building and then rents or leases the building to the school district. The other agency could finance the construction with revenue certificates, but the only obligation the school district would have would be the payment of rent.

The type of bond most frequently issued by school districts depends on the income from a tax levy for the money to pay the obligation. This is called a "full faith and credit" bond (usually called a bond) because the taxpayers of the district have, generally by an election, agreed to assume the obligation and to pay the taxes necessary to meet the payments as they come due. The holder of the bond can therefore rely on the full faith and credit of the entire district to pay the obligation.

Bonds may also be characterized by the way in which payments are to be made. If payments must be made only to the recorded owner of the bond, they are called "registered bonds" since the name of the owner is recorded in a register kept for that purpose. If payment is made to the person holding the bond (without the district having to determine how he got possession), they are known as "bearer bonds." Bonds can be registered by both payment of interest and payment of principal or registered by the payment of principal only, with the interest paid to the holder. Where the interest is to be paid to the holder, coupons are printed as a part of the bond document. Each coupon represents the interest due on that particular bond for a certain specific period of time. The school district is required to pay the interest represented by the coupon to anyone who properly presents it for payment.

Bonds may also be classified as "callable" or "noncallable" depending on whether or not they can be paid before maturity.

With this background in mind, let us look at the problems which the finance officer of the school district will face in setting up the bank accounts and the necessary financial records to properly record the transactions which will take place during the life of the bond issue. Since some of these problems can be eased or made more burdensome depending on the wording of the bond resolution, it is usually advisable for both the school district attorney drawing the bond resolution and the school finance officer to be familiar with the accounting problems and procedures involved.

Only in very small bond issues where all the bonds are to be sold locally does the school district ever make a direct payment to the holder of the bond. It can, of course, be done, and the bond resolution usually states that it can be done. In practically all issues, however, a bank is designated as the "paying agent." It may be a local bank or a commercial bank located in one of the major cities. The name and address of the paying agent is printed on the bond and on each coupon, and the paying agent, for a fee, makes the individual payments through regular banking channels. The school district sends its check to the paying agent for the total amount due far enough in advance to permit the check to clear before the bonds or coupons are actually due for payment. The paying agent reports to the school district periodically the amount of money received, the bonds and coupons paid, and the balance on hand.

The paying agent will also take over the duty of registering the owner, destroying the paid bonds and coupons, and preparing and certifying a "cremation certificate" showing what items have been paid and destroyed, or returning the paid bonds and coupons to the school district.

In this last discussion there has been no mention of accounting forms. This has been done deliberately to emphasize the role of the paying agent and to point out the disadvantages when the school district serves as its own paying agent. When a bank acts as paying agent, it serves in a trust capacity. The school district has met its obligation when it remits the total amount due prior to the maturity date; it can record the entire transaction as a payment of interest or as a retirement of the debt, whichever is appropriate. If the holder of the bonds or the interest coupons does not present them promptly for payment (and it is by no means rare for some to be presented a year or more late) there are no additional entries to be made in the district's accounts, and, even more important, the reputation of the school district for meeting its obligations when due is protected. Such a reputation is a major factor in the ability of a school district to sell additional bond issues at a reasonable interest rate.

Bonds are usually sold and delivered after the date interest begins, and accrued interest must be taken into account. If $100,000 of 4-percent bonds were sold at par plus accrued interest a month after

April 1	Cash	$100, 333. 33	
	Bonds Authorized		$100, 000. 00
	Bond Interest Expense		333. 33
	Sold $100,000 worth of 4-percent bonds dated March 1, at 100 (par) plus accrued interest.		

The accrued interest will be used to aid in meeting the first interest maturity that comes due.

Bonds may not, however, always be sold at face value (par). There are many reasons why a buyer may be willing to pay more (premium) than the face value. For example, the interest being offered may be considerably more than the investor can get elsewhere, or the premium may be used to adjust the net interest cost over the life of the bond to a fractional amount that would be impractical to pay in annual or semiannual installments. For example, 4-percent interest payable semiannually works out to $20 per thousand dollar bond in each payment. A net interest of 3.83 percent might be the best bid. Such a rate could, however, cause complications in calculating the individual interest payments. Paying a premium on the purchase of the bond would, however, have the same result. If the bonds were sold at a premium, the entry would be:

April 1	Cash	$104, 333.33	
	Bonds Authorized		$100, 000.00
	Bond Interest Expense		333.33
	Premium on Bonds Payable		4, 000.00
	Sold $100,000 worth of 4-percent bonds dated March 1, at 104 plus accrued interest.		

The accrued interest and bond premium should be absorbed in the first bond interest payment.

In many school districts the law or regulations require that the bond proceeds used for construction be in an entirely separate fund from those used for the payment of interest or principal. This is sound financial practice. The amount of the accrued interest and premium should, therefore, be transferred to the appropriate Debt Service Fund as soon as it is received.

The following problem has, however, been chosen deliberately to illustrate a wide variety of transactions. Please understand that modifications may be necessary to meet the legal requirements of any given school district.

Example:

The school district validates $100,000 worth of serial bonds on February 1, and sells them on March 1 for 4 percent at 101 plus accrued interest. The bonds are dated March 1, but are not delivered until March 15, and cash is received at that time. The laws and regulations, as well as the bond resolution, require that the district maintain a Debt Service Fund for the payment of interest and principal. The bonds are not registered, interest is payable semiannually, and the paying agent is the Ultimate National Bank of New York. The principal is to be paid off in 20 years.

The journal entries covering the receipt of the bond proceeds and setting up the appropriation in the Bond Construction Fund are included in chapter XI. This example will start with the receipt of cash representing the premium and accrued interest.

The journal entries from March 15, through the following June 30 (the end of the next fiscal year), in the Debt Service Fund should be carefully studied in connection with the outline of the provisions given above. Certain transactions, such as the receipt of tax revenue, are assumed to take place on the dates specified. The posting of the ledger accounts is illustrated, but appropriate trial balances as of June 30 should be prepared for both the first fiscal year and the second fiscal year prior to the posting of the closing entries for the second fiscal year. After the closing entries have been made, a closing statement of Assets and Liabilities and Revenue and Expenses should also be prepared. Refer to chapter VI if any of these entries are not understood.

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 March 15	Cash	1501	1,166	67		
	Bond Interest Expense	2051			1,166	67
	To record transfer of premium and					
	accrued interest received on sale of					
	bonds from Bond Construction Fund.					
	Board Resolution #16, dated March 1,					
	states that the Board will accumulate					
	a reserve equal to two years principal					
	requirements to provide for					
	contingencies.					
1967 March 15	Amount needed for Retirement of Bonds	1630	100,000	00		
	Bonds Payable	1640			100,000	00
	To set up liability in Debt Service					
	Fund for bonds sold.					

The entries to set up the books for the next fiscal year, beginning

The entries to set up the books for the next fiscal year, beginning

July 1, would be as follows:

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 July 1	Estimated Revenue	2020	13,000	00		
	Fund Balance	2010			13,000	00
	To record and establish the Estimated					
	Revenue Summary account in the Gen-					
	eral Ledger for the approved Debt					
	Service Fund budget for the fiscal					
	year 1967 to 1968. Detailed break-					
	down of Estimated Revenue is as					
	follows:					
	Acct.# Title Amount					
	11 Taxes 12,000	11				
	14 Other Local Revenue 1,000	14				

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 July 1	Fund Balance	2010	8,000	00		
	Appropriations	2040			8,000	00
	To record and establish the Appropriations control account in the General Ledger for the approved Interest and Sinking Fund Budget for the fiscal year 1967 to 1968. Detailed breakdown of appropriations is as follows:					
	Acct.# Title Amount					
	1310 Debt Service - Principal 5,000	1310				
	1320 Debt Service - Interest 2,900	1320				
	1330 Debt Service - Other Charges 100	1330				
1	Fund Balance	2010	5,000	00		
	Required sinking fund contribution-1st year	2013			5,000	00
	To record providing the required reserve according to terms of Board resolution.					
Aug. 1	Cash	1501	4,395	00		
	Revenue	2030			4,395	00
	To record receipt of taxes from Tax Collector					
10	Expenditure	2050	833	33		
	Bond Interest Expense	2051			833	33
	To record Interest expense against appropriations.					
10	Bond Interest Expense	2051	2,000	00		
	Cash	1501			2,000	00
	To record payment of coupon # 1 due 9/1 to paying agent.					

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Sept. 1	Cash	1501	6,185	00		
	Revenue	2030			6,185	00
	To record receipt of taxes from Tax					
	Collector.					
Oct. 1	Cash	1501	1,214	00		
	Revenue	2030			1,214	00
	To record receipt of taxes ($214) from					
	Tax Collector and ($1,000) contribu-					
	tion from General Fund.					
15	Expenditures	2050	5	00		
	Paying Agents charges	2052			5	00
	To record paying agents charges of					
	.05 per coupon for paying coupon # 1.					
	All coupons returned.					
15	Paying Agents Charges	2052	5	00		
	Cash	1501			5	00
	To record payment to paying agent.					
Nov. 1	Cash	1501	515	00		
	Revenue	2030			515	00
	To record receipt of taxes from Tax					
	Collector.					
1968 Jan. 1	Cash	1501	520	00		
	Revenue	2030			520	00
	To record receipt of taxes from Tax					
	Collector.					
Feb. 1	Cash	1501	121	00		
	Revenue	2030			121	00
	To record final receipt of taxes on					
	1967 roll from Tax Collector.					

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1968 Feb. 10	Bonds Payable	1640	5,000	00		
	Matured Bonds	1641			5,000	00
	To record maturing of Bonds #1-5 due					
	3/1/68.					
11	Expenditures	2050	5,000	00		
	Amount needed for Retirement of Bonds	1630			5,000	00
	To record charging appropriations with					
	payment of Bonds # 1-5.					
11	Expenditures	2050	2,000	00		
	Bond Interest Expense	2051			2,000	00
	To record interest expense against					
	appropriations.					
12	Matured Bonds	1641	5,000	00		
	Bond Interest Expense	2051	2,000	00		
	Cash	1501			7,000	00
	To record transmittal of funds to pay-					
	ing agent for coupon # 2 from Bonds					
	1-100 and Principal of Bonds 1-5 all					
	due 3/1/68.					
March 1	Required Sinking Fund Contribution	2013	5,000	00		
	Reserve Fund	2014			5,000	00
	To record transfer of 1st of two an-					
	nual installments to Reserve Fund.					
3	Investments	1550	4,000	00		
	Accrued Interest Purchased	1531	40	00		
	Cash	1501			4,040	00
	To record purchase of STSD #6 4% Bonds					
	dated 1/1/55, at par plus accrued in-					
	terest. Bonds #151/155 as Investment.					

GENERAL JOURNAL

DEBT SERVICE FUND

Page 5

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1968 June 1	Expenditures	2050	10 00	
	Paying Agents Charges	2052		10 00
	To record paying agents charges of			
	$1.00 per bond and .05 per coupon.			
	Bonds 1/5 returned and all coupons			
	#2.			
1	Paying Agents Charges	2052	10 00	
	Cash	1501		10 00
	To record payment to paying agent.			
	Closing Entries			
30	Fund Balance	2010	50 00	
	Revenue	2030	12,950 00	
	Estimated Revenue	2020		13,000 00
	To close Revenue and Estimated			
	Revenue to Fund Balance.			
30	Appropriations	2040	8,000 00	
	Fund Balance	2010		151 67
	Expenditures	2050		7,848 33
	To close Expenditures and Appropria-			
	tions to Fund Balance.			

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Cash　　Account # 1501

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Mar.	15		DSJ1	1,166	67	1967 Aug.	10		DSJ2	2,000	00
Aug.	1		DSJ2	4,395	00	Oct.	15		DSJ3	5	00
Sept	1		DSJ3	6,185	00	1968 Feb.	12		DSJ4	7,000	00
Oct.	1		DSJ3	1,214	00	Mar.	3		DSJ4	4,040	00
Nov.	1		DSJ3	515	00	June	1		DSJ5	10	00
1968 Jan.	1		DSJ3	520	00						
Feb.	1		DSJ3	121	00						

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Accrued Interest Purchased　　Account # 1531

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1968 Mar.	3		DSJ4	40	00						

GENERAL LEDGER
DEBT SERVICE FUND

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Account Investments　　Account # 1550

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1968 Mar.	3		DSJ4	4,000	00						

GENERAL LEDGER
DEBT SERVICE FUND

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Account Amount needed for Retirement of Bonds　　Account # 1630

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Mar.	15		DSJ1	100,000	00	Feb.	11		DSJ4	5,000	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Bonds Payable　　Account # 1640

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1968 Feb.	10		DSJ4	5,000	00	1967 Mar.	15		DSJ1	100,000	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Matured Bonds	Account # 1641

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1968 Feb.	12		DSJ4	5,000	00	1968 Feb.	10		DSJ4	5,000	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Fund Balance	Account # 2010

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 July	1		DSJ2	8,000	00	1967 July	1		DSJ1	13,000	00
	1		DSJ2	5,000	00	1968 June	30		DSJ5	151	67
1968 June	30		DSJ5	50	00						

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Required Sinking Fund Contribution	Account # 2013

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1968 Mar.	1		DSJ4	5,000	00	1967 July	1		DSJ2	5,000	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Reserve Fund	Account # 2014

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
						1968 Mar.	1		DSJ4	5,000	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Estimated Revenue	Account # 2020

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 July	1		DSJ1	13,000	00	1968 June	30		DSJ5	13,000	00

GENERAL LEDGER
DEBT SERVICE FUND

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Account Revenue Account # 2030

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1968 June	30		DSJ5	12,950	00	1967 Aug.	1		DSJ2	4,395	00
						Sept	1		DSJ3	6,185	00
						Oct.	1		DSJ3	1,214	00
						Nov.	1		DSJ3	515	00
						1968 Jan.	1		DSJ3	520	00
						Feb.	1		DSJ3	121	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Appropriations Account # 2040

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1968 June	30		DSJ5	8,000	00	1967 July	1		DSJ2	8,000	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Expenditures Account # 2050

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Aug.	10		DSJ2	833	33	1968 June	30		DSJ5	7,848	33
Oct.	15		DSJ3	5	00						
1968 Feb.	11		DSJ4	5,000	00						
	11		DSJ4	2,000	00						
June	1		DSJ5	10	00						

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Bond Interest Expense Account # 2051

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Aug.	10		DSJ2	2,000	00	1967 Mar.	15		DSJ1	1,166	67
1968 Feb.	12		DSJ4	2,000	00	Aug.	10		DSJ2	833	33
						1968 Feb.	11		DSJ4	2,000	00

GENERAL LEDGER
DEBT SERVICE FUND

Page 1

Account Paying Agents Charges

Account # 2052

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT		DATE	EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Oct. 15		DSJ3	5	00	1967 Oct. 15		DSJ3	5	00
June 1		DSJ5	10	00	June 1		DSJ5	10	00

Anytown School District
Sinking Fund
Trial Balance
June 30, 1968

	Account Title	Acct. No.	Debit		Credit	
	Cash	1501	1,061	67		
	Bond Interest Expense	2051				
	Amount needed for Retirement of Bonds	1630	95,000	00		
	Bonds Payable	1640			95,000	00
	Paying Agents Charges	2052				
	Matured Bonds	1641				
	Estimated Revenue	2020	13,000	00		
	Revenue	2030			12,950	00
	Fund Balance	2010				
	Appropriations	2040			8,000	00
	Expenditures	2050	7,848	33		
	Required Reserve	2013				
	Reserve Fund	2014			5,000	00
	Investments	1550	4,000	00		
	Accrued Interest Purchased	1531	40	00		
			120,950	00	120,950	00

ANYTOWN SCHOOL DISTRICT

SINKING FUND

Closing Statement

June 30, 1968

Cash	$1, 061. 67	
Amount Needed for Retirement	95, 000. 00	
Bonds Payable	-----------	$95, 000. 00
Reserve Fund	-----------	5, 000. 00
Investments	4, 000. 00	
Accrued Interest Purchased	40. 00	
Fund Balance	-----------	101. 67
Total	$100, 101. 67	$100, 101. 67

Bond registers and accounts with paying agents

If the terms of the agreement with the paying agent do not call for the trustee to provide complete service, but rather to pay only the items presented and then to return the paid bonds and coupons to the district, it will be necessary for the district to keep two additional records.

Even though funds transmitted to paying agents are immediately recorded as expenditures, it is necessary to set up a simple subsidiary ledger account and to post it when funds are transmitted, and when paid bonds and coupons are returned.

Paying Agent

Date	Amount Remitted	Date	Canceled Items Returned
8/10	$2,000.00	10/15	$2,000.00
2/11	7,000.00	6/10	7,000.00
Etc.		Etc.	

In addition to the ledger account, it is also necessary to maintain a Bond Register to record the actual numbers of the bonds or coupons that have been returned, so that the actual number of the bonds or coupons that have not been presented for payment can be ascertained.

The form of the Bond Register varies widely. In some cases it provides space for the actual bond or coupon to be pasted in the register. Usually a date is stamped instead of pasting in the actual document. A vacant space indicates that the item is still outstanding. This reduces the size of the register considerably, but increases the possibility of error since an inexperienced clerk may date every space when the money is remitted to the paying agent.

The appropriate space should not be stamped until the bonds or coupons have been received. The date used should be the date the documents are received from the paying agent as shown in the Paying Agent's ledger account. A convenient form of Bond Register is illustrated on pages 188–189. This register can be expanded to fit any size issue simply by additional pages rather than printing the form specifically for each issue.

The amount of money represented by the unstamped spaces in the Bond Register should be identical with the balance in the Paying Agent's account if all payments have been made when due and if all paid bonds and coupons have been properly stamped in the register.

The ledger account with the paying agent should be reconciled with the statement submitted by the paying agent. This reconciliation follows the basic principles of reconciling any bank statement except that unreturned paid bonds or coupons held by the paying agent for shipment to the school district at a later date should be taken into account.

Debt service statements

Reports and statements concerning bonded indebtedness are necessary for budgeting and tax levy purposes and also for presenta-

BOND REGISTER

ANYTOWN SCHOOL DISTRICT

DATE OF ISSUE 10-1-61
DENOMINATION $1,000
DATE SOLD 10-1-61

RATE OF INTEREST 6%
COUPONS $ 30 EACH
INTEREST PAYABLE April AND October

PAR VALUE $600,000
AMOUNT RECEIVED $ 600,000

MATURITY DATE	BOND NUMBERS	AMOUNT PAYABLE			LESS BONDS AND COUPONS RETIRED IN ADVANCE OF DUE DATE				BALANCE PAYABLE	SINKING FUND REQUIREMENTS	
		BONDS	COUPONS	TOTAL	BOND NUMBERS	BOND NUMBERS	BOND NUMBERS	BOND NUMBERS		ANNUAL	CUMULATIVE
Oct. 1 61	Sold										
April 1 62			18,000 00	18,000 00					18,000 00		
Oct. 1 62	1-30	30,000 00	18,000 00	48,000 00					48,000 00		
April 1 63			17,100 00	17,100 00					17,100 00		
Oct. 1 63	31-60	30,000 00	17,100 00	47,100 00					47,100 00		
April 1 64			16,200 00	16,200 00					16,200 00		
Oct. 1 64	61-90	30,000 00	16,200 00	46,200 00					46,200 00		
April 1 65			15,300 00	15,300 00					15,300 00		
Oct. 1 65	91-120	30,000 00	15,300 00	45,300 00					45,300 00		
April 1 66			14,400 00	14,400 00							
Oct. 1 66	121-150	30,000 00	14,400 00	44,400 00							
April 1 67			13,500 00	13,500 00							
Oct. 1 67	151-180	30,000 00	13,500 00	43,500 00							
April 1 68			12,600 00	12,600 00							
Oct. 1 68	181-210	30,000 00	12,600 00	42,600 00							
April 1 69			11,700 00	11,700 00							
Oct. 1 69	211-240	30,000 00	11,700 00	41,700 00							
April 1 70			10,800 00	10,800 00							
Oct. 1 70	241-270	30,000 00	10,800 00	40,800 00							
April 1 71			9,900 00	9,900 00							
Oct. 1 71	271-300	30,000 00	9,900 00	39,900 00							
April 1 72			9,000 00	9,000 00							
Oct. 1 72	301-330	30,000 00	9,000 00	39,000 00							
April 1 73			8,100 00	8,100 00							
Oct. 1 73	331-360	30,000 00	8,100 00	38,100 00							
April 1 74			7,200 00	7,200 00							
Oct. 1 74	361-390	30,000 00	7,200 00	37,200 00							
April 1 75			6,300 00	6,300 00							
Oct. 1 75	391-420	30,000 00	6,300 00	36,300 00							
April 1 76			5,400 00	5,400 00							
Oct. 1 76	421-450	30,000 00	5,400 00	35,400 00							
April 1 77			4,500 00	4,500 00							
Oct. 1 77	451-480	30,000 00	4,500 00	34,500 00							
April 1 78			3,600 00	3,600 00							
Oct. 1 78	481-510	30,000 00	3,600 00	33,600 00							
April 1 79			2,700 00	2,700 00							
Oct. 1 79	511-540	30,000 00	2,700 00	32,700 00							
April 1 80			1,800 00	1,800 00							
Oct. 1 80	541-570	30,000 00	1,800 00	31,800 00							
April 1 81			900 00	900 00							
Oct. 1 81	571-600	30,000 00	900 00	30,900 00							
		600,000 00	378,000 00	978,000 00							

tion to community and other groups concerned with financing education. A single statement can frequently serve both purposes, especially if it is updated yearly.

On page 190 is a sample of an Analysis of Bonded Debt and Interest statement that shows the transactions during the current fiscal year for budget purposes, the total debt outstanding, and the amount that will be needed to be provided each year. The figures on this statement are illustrative only; they do not tie in with any other figures in this text.

BOND REGISTER

		Bond Number 1	Bond Number 2	Bond Number 3	Bond Number 4	Bond Number 5	Bond Number 6	Bond Number 7	Bond Number 8	Bond Number 9	Bond Number 10	Bond Number ETC
		Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due 10-1-62	Date Bond Due
		Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted 9-14-62	Date Remitted
		Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned 11-3-62	Date Returned
Coupon Numbers	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned	Date Coupon Returned
1	3-15-62	6-1-62	6-1-62	6-1-62	6-1-62	6-1-62	6-1-62	6-1-62	6-1-62	6-1-62	6-1-62	
2	9-14-62	11-3-62	11-3-62	11-3-62	11-3-62	11-3-62	11-3-62	11-3-62	11-3-62	11-3-62	11-3-62	
3	3-1-63											
4	9-18-63											
5	3-19-64											
6	9-14-64											
7	3-5-65											
8	9-8-65											
9	3-15-66											
10	9-14-66											
11	3-15-67											
12	9-15-67											
13	3-18-68											
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
ETC												

SUMMARY

(1) A **Bond** is a promise to pay money.

(2) School districts normally finance the construction of school buildings by issuing **Bonds.**

(3) A **Bond Register** is used for recording the actual numbers of the bonds or coupons that have been returned (redeemed); consequently, it also shows the amounts outstanding.

(4) There are various **Debt Service Statements** that can be prepared for budgeting and tax levy purposes as well as for presentation to the general public.

Anytown School District
Analysis of Bonded Debt and Interest
Fiscal Year Ended June 30, 1965

Bond Issue	Bonds Authorized	Bonds Issued	Redeemed Prior to Current Year	Outstanding Beginning of Period	Payments Due				Balance Owed on July 1 1965
					Date Due	Principal	Interest	Total	
Anytown School District									
10-1-51 $800,000 5%									
Serial Bonds									
Due 10-1-52/71	800 000	800 000	480 000	320 000	10-1-64	40 000	8 000	55 000	280 000
					4-1-65		7 000		
Anytown School District									
10-1-55 $300,000 4%									
Serial Bonds									
Due 10-1-56/75	300 000	300 000	120 000	180 000	10-1-64	15 000	3 600	21 900	165 000
					4-1-65		3 300		
Anytown School District									
10-1-61 $600,000 6%									
Serial Bonds									
Due 10-1-62/81	600 000	600 000	60 000	540 000	10-1-64	30 000	16 200	61 500	510 000
					4-1-65		15 300		
	1 700 000	1 700 000	660 000	1 040 000		85 000	53 400	138 400	955 000

Amount Required for Future Maturities

Fiscal Year	Total	Principal	Interest
1966	134 000	85 000	49 000
1967	129 600	85 000	44 600
1968	125 200	85 000	40 200
1969	120 800	85 000	35 800
1970	116 400	85 000	31 400
1971	112 000	85 000	27 000
1972	107 600	85 000	22 600
1973	64 200	45 000	19 200
1974	61 800	45 000	16 800
1975	59 400	45 000	14 400
1976	57 000	45 000	12 000
1977	39 900	30 000	9 900
1978	38 100	30 000	8 100
1979	36 300	30 000	6 300
1980	34 500	30 000	4 500
1981	32 700	30 000	2 700
1982	30 900	30 000	900
TOTAL	1 300 400	955 000	345 400

CHAPTER XI

Construction Fund Accounting

The Construction Fund may receive funds from any or all of several sources. It may receive the proceeds from the sale of bonds. In some instances special tax levies may be assessed and collected for construction. Or, the General Fund levy may include an amount to be used for construction.

Occasionally, construction funds are available for limited use—for example, for elementary school construction only or for junior high school construction only. In such cases, separate funds should be established to assure that funds are expended only in accordance with such limited use. If limited use of construction funds is not specified, one Construction Fund may be maintained.

Some school districts employ their own construction personnel and build some or all of their own schools. Those districts must maintain records that reflect accurately all costs of construction—for example, salaries and building materials. Accounting procedures and forms for expenditures under this method of construction are similar to those used in expenditure accounting for the General Fund.

Most districts construct school buildings by contracting with an architect to prepare plans and specifications and with a construction company to do the building. When this method of construction is used several new accounting terms come into use.

For preparing plans and specifications the architect is paid a fee (Architect's Fee) which is a percentage of construction cost. He is paid in several installments. His contract with the Board of Education may require that he be paid a certain percentage of his fee at the time preliminary drawings are submitted and the rest at intervals, for example, when construction is 25 percent, 50 percent, 75 percent, and 100 percent completed. Or, the contract may require a payment of a percentage when preliminary drawings are submitted and the balance in installments which are a percentage of the construction contractor's requisitions for payment.

At the time the architect submits preliminary drawings, including estimated cost of construction, the following journal entry should be made—

Contract Encumbrances
Reserve for Contract Encumbrances
To record estimated architects fees (9 percent of estimated construction cost).

As payments are made to the architect—

Appropriation Expenditures
Cash
To record payment of architects fee (1st Installment).

The amount of the payment is liquidated—

Reserve for Contract Encumbrances
Contract Encumbrance.

When the construction contract is awarded, contract encumbrances for the architect's fee are adjusted.

The contract for construction is usually awarded to the lowest competent bidder. Usually, contracts for construction require that the contractor submit requisitions for payment as construction progresses, and that from each requisition the school district withhold a percentage (usually 10 percent) pending satisfactory completion of the project. The amount to be withheld is called "Retained Percentage."

When the contract is awarded—

Contract Encumbrances
Reserve for Contract Encumbrances
To record awarding of contract to PDQ Construction.

As payments are made—

Appropriation Expenditures
Retained Percentage
Cash
To record expenditures, retained percentage withheld, and cash payment to contractor.

Appropriation Expenditures is debited for the full amount of the requisition; Retained Percentage is credited with the amount to be retained; and the difference is credited to Cash.

Encumbrances are liquidated for the full amount charged to Appropriation Expenditures.

When construction is satisfactorily completed, retained percentage is released by—

Retained Percentage
Cash.

Following are the transactions that will be journalized to illustrate the accounting necessary for the Bond Construction Fund:

Bond construction fund journal

February 1—Bonds in the amount of $100,000 are authorized by referendum.

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Page 1

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Feb. 1	Bonds Authorized - Unissued	3010	100,000	00		
	Reserve for Authorized Expenses	3020			100,000	00
	To record approval of bond issue.					

March 1—Bonds are sold at an interest rate of 4 percent for $101,000 plus accrued interest; they are not to be delivered until March 15.

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Page 2

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 March 1	Bond Proceeds Receivable	1545	101,000	00		
	Bonds Authorized - Unissued	3010			100,000	00
	Premium on Bonds	2031			1,000	00
	To record sale of bonds at 101; int.					
	4%; to be delivered March 15.					

March 15—The bonds are delivered.

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BOND CONSTRUCTION FUND
Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 March 15	Cash	1501	101,166	67		
	Bond Proceeds Receivable	1545			101,000	00
	Accrued Interest	2032			166	67
	To record delivery of the bonds and					
	settlement.					

General fund journal

March 15—The General Fund budget for the fiscal year includes $150,000 for Capital Outlay—Buildings, which is to be transferred to the Bond Construction Fund at the time the bonds are sold.

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Page 1

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 March 15	Transfer to Bond Construction Fund	1415	150,000 00	
	Cash on Time Deposit	1520		150,000 00
	To record transfer of Capital Outlay			
	appropriation.			

Bond construction fund journal

March 15—Premium and accrued interest are transferred to the Debt Service Fund.

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BOND CONSTRUCTION FUND
Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 March 15	Premium on Bonds	2031	1,000 00	
	Accrued Interest	2032	166 67	
	Cash	1501		1,166 67
	To record transfer of premium and ac-			
	crued interest to Debt Service Fund.			

March 15—$100,000 is appropriated to construction.

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BOND CONSTRUCTION FUND
Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 March 15	Reserve for Authorized Expenses	3020	100,000 00	
	Appropriations	2040		100,000 00
	$100,000 appropriated to construction;			
	detail as follows:			
	Acct.# Title Amount			
	1210 Capital Outlay - Sites 10,000.00	1210		
	1220 Capital Outlay - Buildings 75,000.00	1220		
	1230 Capital Outlay - Equipment 15,000.00	1230		

March 15—$90,000 is invested in Treasury bills.

GENERAL JOURNAL

BOND CONSTRUCTION FUND

Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 March 15	Investments	1550	90,000	00		
	Cash	1501			90,000	00
	To record investment.					

March 15—The Capital Outlay appropriation is transferred from the General Fund.

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BOND CONSTRUCTION FUND

Page 4

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 March 15	Cash on Time Deposit	1520	150,000	00		
	Fund Balance	2010			150,000	00
	To record transfer of Capital Outlay					
	appropriation from General Fund.					
	Cash is on time deposit, (since Feb.					
	1) interest to be credited semi-					
	annually, June 30 and December 31.					
	All earnings to accrue to Bond Con-					
	struction Fund.					

March 15—$150,000 of appropriation is transferred from the Fund Balance account.

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BOND CONSTRUCTION FUND

Page 4

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 March 15	Fund Balance	2010	150,000	00		
	Appropriations	2040			150,000	00
	To record appropriation of full amount					
	transferred; detail as follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 130,000	1220				
	1230 Capital Outlay - Equipment 20,000	1230				

May 1—J. P. Smith and Associates, architects for the cafeteria renovations at the Senior High School, submit preliminary plans and invoice in the amount of $4,275. The schedule for payment of architect's fees has been agreed on by the board and architect as follows:

> 25 percent on acceptance of preliminary drawings. Balance at the rate of 9 percent for each construction requisition after construction requisitions reach a total of $47,500. The cost of construction is estimated at $190,000. At 9 percent, the architect's fee is $17,100, and is obligated. Twenty-five percent of $17,100, $4,275, is paid.

GENERAL JOURNAL

BOND CONSTRUCTION FUND

Page 5

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 May 1	Contract Encumbrances	2070	17,100	00		
	Reserve for Contract Encumbrances	2012			17,100	00
	To record estimated architects fee					
	for cafeteria addition. Detail as					
	follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 17,100.00	1220				
1	Appropriation Expenditures	2050	4,275	00		
	Cash	1501			4,275	00
	To record payment of 25% of archi-					
	tect's fee (based on estimated cost);					
	detail as follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 4,275.00	1220				
1	Reserve for Contract Encumbrances	2012	4,275	00		
	Contract Encumbrances	2070			4,275	00
	To liquidate encumbrances in amount					
	of payment to architect. Liquidate					
	$4,275.00 in detail account 1220--	1220				
	Capital Outlay - Buildings.					

June 15—The construction contract is awarded in the amount of $185,000 to XYZ Construction Co.

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Page 6

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 June 15	Contract Encumbrances	2070	185,000	00		
	Reserve for Contracted Encumbrances	2012			185,000	00
	To record contract with XYZ					
	Construction. Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 185,000.00	1220				

June 25—Purchase orders are issued for cafeteria equipment in the amount of $22,000, to be delivered and installed by October 1.

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Page 7

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 June 25	Purchase Order Encumbrances	2060	22,000	00		
	Reserve for Purchase Order Encumbrances	2011			22,000	00
	To record issuance of purchase orders					
	for cafeteria equipment.					
	Acct.# Title Amount					
	1230 Capital Outlay - Equipment 22,000.00	1230				

June 30—The bank notifies the superintendent of schools that interest of $1,875 has been credited to the schools on funds on time deposit (deposited February 1 at 3 percent).

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BOND CONSTRUCTION FUND
Page 8

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 June 30	Cash on Time Deposit	1520	1,875	00		
	Fund Balance	2010			1,875	00
	To record interest earned on time de-					
	posit of $150,000 for 5 months at 3%.					

On the following pages journal entries are posted to the proper General Ledger and Appropriation and Expenditure Ledger accounts.

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BOND CONSTRUCTION FUND

Page 1

Account Cash

Account # 1501

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Mar.	15		J-3	101,166	67	1967 Mar.	15		J-3	1,166	67
							15		J-3	90,000	00
						May	1		J-5	4,275	00
				101,166	67					95,441	67

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Cash on Time Deposit

Account # 1520

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Mar.	15		J-4	150,000	00						
June	30		J-8	1,875 151,875	00 00						

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Bond Proceeds Receivable

Account # 1545

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Mar.	1		J-2	101,000	00	1967 Mar.	15		J-3	101,000	00

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Investments

Account # 1550

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Mar.	15		J-3	90,000	00						

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Fund Balance

Account # 2010

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Mar.	15		J-4	150,000	00	1967 Mar	15		J-4	150,000	00
						June	30		J-8	1,875	00
				150,000	00			1,875.00		151,875	00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Reserve for Purchase Order Encumbrances

Account # 2011

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1967 June 25		J-7	22,000 00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Reserve for Contract Encumbrances

Account # 2012

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 May 1		J-5	4,275 00	1967 May 1		J-5	17,100 00
				June 15		J-6	185,000 00
					197,825.00		202,100 00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Premium on Bonds

Account # 2031

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 Mar. 15		J-3	1,000 00	1967 Mar. 1		J-2	1,000 00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Accrued Interest

Account # 2032

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 Mar. 15		J-3	166 67	1967 Mar. 15		J-3	166 67

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Appropriations

Account # 2040

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1967 Mar. 15		J-3	100,000 00
				15		J-4	150,000 00
							250,000 00

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Appropriation Expenditures Account # 2050

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 May 1		J-5	4,275 00				

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Purchase Order Encumbrances Account # 2060

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 June 25		J-7	22,000 00				

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Contract Encumbrances Account # 2070

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 May 1		J-5	17,100 00	1967 May 1		J-5	4,275 00
June 15	197,825.00	J-6	185,000 00 202,100 00				

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Bond Authorized - Unissued Account # 3010

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 Feb. 1		J-1	100,000 00	1967 Mar. 1		J-2	100,000 00

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Reserve for Authorized Expenses Account # 3020

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 Mar. 15		J-3	100,000 00	1967 Feb. 1		J-1	100,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # BC-1210 BOND CONSTRUCTION FUND Page 1

Account Description Capital Outlay-Sites

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1967 Mar 15	J-3	10,000 00							10,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # BC-1220 BOND CONSTRUCTION FUND Page 1

Account Description Capital Outlay-Buildings

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1967 Mar 15	J-3	75,000 00							75,000 00
15	J-4	130,000 00							205,000 00
May 1	J-5		17,100 00		17,100 00			17,100 00	187,900 00
	J-5			4,275 00	12,825 00	4,275 00	4,275 00	17,100 00	187,900 00
Jun 15	J-6		185,000 00		197,825 00		4,275 00	202,100 00	2,900 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # BC-1230 BOND CONSTRUCTION FUND Page 1

Account Description Capital Outlay-Equipment

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1967 Mar 15	J-3	15,000 00							15,000 00
15	J-4	20,000 00							35,000 00
Jun 25	J-7		22,000 00		22,000 00			22,000 00	13,000 00

245-882 O—67——14

A trial balance at June 30 shows the following:

Bond Construction Fund
Trial Balance
June 30, 1967

	Account Title	Acct. No.	Debit		Credit	
	Cash	1501	5,725	00		
	Cash on Time Deposit	1520	151,875	00		
	Investments	1550	90,000	00		
	Fund Balance	2010			1,875	00
	Reserve for Purchase Order Encumbrances	2011			22,000	00
	Reserve for Contract Encumbrances	2012			197,825	00
	Appropriations	2040			250,000	00
	Appropriation Expenditures	2050	4,275	00		
	Purchase Order Encumbrances	2060	22,000	00		
	Contract Encumbrances	2070	197,825	00		
			471,700	00	471,700	00

Entries to close the books on June 30 would be as shown below. Please note that the Contract Encumbrances are closed to Fund Balance and carried forward as an earmarked portion of Fund Balance and reappropriated as the first entry in the next fiscal year. An alternative method, which was explained on page 130, chapter VI, is to close the Encumbrance account to the Expenditure account.

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 June 30	Appropriations	2040	250,000	00		
	Fund Balance	2010			250,000	00
	To close Appropriations account.					
30	Fund Balance	2010	219,825	00		
	Contract Encumbrances	2070			197,825	00
	Purchase Order Encumbrances	2060			22,000	00
	To close encumbrance accounts.					
30	Fund Balance	2010	4,275	00		
	Appropriation Expenditures	2050			4,275	00
	To close Appropriation Expenditures account.					

A balance sheet is prepared.

BOND CONSTRUCTION FUND

Balance Sheet
June 30, 1967

Assets:	
Cash	5, 725. 00
Cash on Time Deposit	151, 875. 00
Investments	90, 000. 00
Total Assets	247, 600. 00
Reserves and fund balance:	
Reserve for Contract Encumbrances	197, 825. 00
Reserve for Purchase Order Encumbrances	22, 000. 00
Fund Balance	27, 775. 00
Total Reserves and Fund Balance	247, 600. 00

On July 1, 1967 (the first day of the new fiscal year), the following journal entry is made and posted to set up the books for the new year. A new series of journal page numbers is used for 1967.

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BOND CONSTRUCTION FUND

Page *1*

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 *July 1*	*Cash*	*1501*	*5,725*	*00*		
	Cash on Time Deposit	*1520*	*151,875*	*00*		
	Investments	*1550*	*90,000*	*00*		
	Reserve for Contract Encumbrances	*2012*			*197,825*	*00*
	Reserve for Purchase Order Encumbrances	*2011*			*22,000*	*00*
	Fund Balance	*2010*			*27,775*	*00*
	To set up books for the new year.					

Unexpended appropriation balances on June 30 are reappropriated by the board. Encumbrances on June 30, both contract and purchase order, are still outstanding and must be set up on the books. The entry to do this is:

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BOND CONSTRUCTION FUND

Page 2

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 July 1	Contract Encumbrances	2070	197,825	00		
	Purchase Order Encumbrances	2060	22,000	00		
	Fund Balance	2010	25,900	00		
	Appropriations	2040			245,725	00
	To set up appropriations for the new					
	fiscal year and record outstanding					
	encumbrances. Detail as follows:					
	Acct.# Title Appropriate Encumbrance					
	1210 Cap.Out.-Sites 10,000.00 -0-	1210				
	1220 Cap.Out.-Bldgs 200,725.00 197,825.00	1220				
	1230 Cap.Out.-Equip. 35,000.00 22,000.00	1230				

On July 1, the bank notifies the superintendent that, in accordance with the Time Deposit Schedule (set up in February when the $150,000 was deposited on Time Deposit), $75,000 has been transferred to the regular Cash account. The entry would be as follows:

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 July 1	Cash	1501	75,000	00		
	Cash On Time Deposit	1520			75,000	00
	To record transfer of cash (per					
	schedule) to Cash account.					

On July 3, XYZ Construction Co. submits a requisition for payment in the amount of $31,500 for material on site (as per contract). In accordance with the contract, 10 percent of the requisition is to be withheld pending completion of construction. As required, the architect has approved the requisition. The entry to record payment and liquidation is as follows:

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Page 4

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 July 3	Appropriation Expenditures	2050	31,500	00		
	Retained Percentage	1650			3,150	00
	Cash	1501			28,350	00
	To record payment of Requisition #1.					
	Detail as follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 31,500.00	1220				
3	Reserve for Contract Encumbrances	2012	31,500	00		
	Contract Encumbrances	2070			31,500	00
	To liquidate for Requisition #1.					
	Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 31,500.00	1220				

On July 18, requisition No. 2 is received from the contractor in the amount of $30,000. The following entries are made:

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BOND CONSTRUCTION FUND

Page 5

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 July 18	Appropriation Expenditures	2050	30,000	00		
	Retained Percentage	1650			3,000	00
	Cash	1501			27,000	00
	To record payment of requisition #2.					
	Detail as follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 30,000.00	1220				
18	Reserve for Contract Encumbrances	2012	30,000	00		
	Contract Encumbrances	2070			30,000	00
	To liquidate for Requisition #2.					
	Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 30,000.00	1220				

With construction requisition No. 2 the total of the requisitions exceeds $47,500. An invoice is received from the architect on July 18 as follows:

9 percent of $185,000 or		$16, 650
Received to date:		
25 percent of 9 percent of $190,000 or		4, 275
Balance of fee		$12, 375
Due on construction:		
Requisition No. 1—$31,500×9 percent= 2, 835		
Requisition No. 2—$30,000×9 percent= 2, 700		
Less amount received to date	5, 535	
Due architect with requisition No. 2	4, 275	1, 260
Balance of fee		$11, 115
Proof:		
Total construction contract		$185, 000
Requisitions Nos. 1 and 2		61, 500
Balance		$123, 500
Architect's fee of		9%
		$11, 115

Entry to pay the architect's fee due—

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BOND CONSTRUCTION FUND

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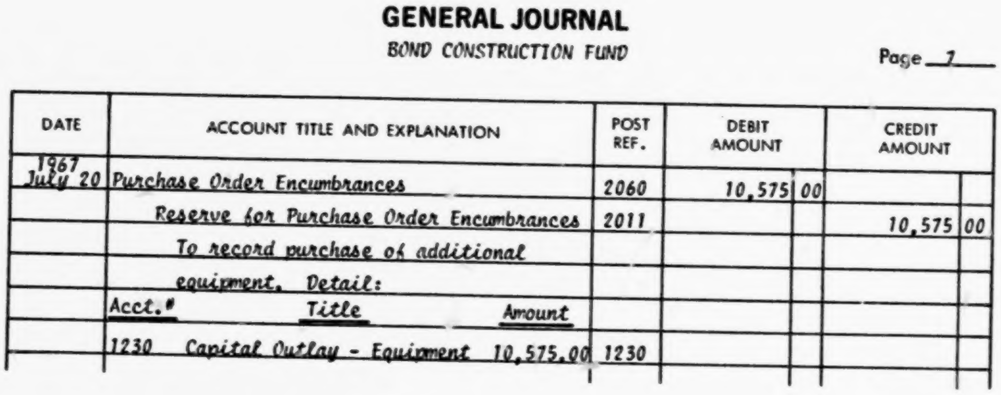
DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 July 18	Appropriation Expenditures	2050	1,260	00		
	Cash	1501			1,260	00
	To record second fee payment to					
	architect. Detail as follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 1,260.00	1220				
18	Reserve for Contract Encumbrances	2012	1,260	00		
	Contract Encumbrances	2070			1,260	00
	To liquidate for payment to architect.					
	Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 1,260.00	1220				

On July 20, a purchase order is issued for additional cafeteria equipment at a cost of $10,575. The entry would be:



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BOND CONSTRUCTION FUND

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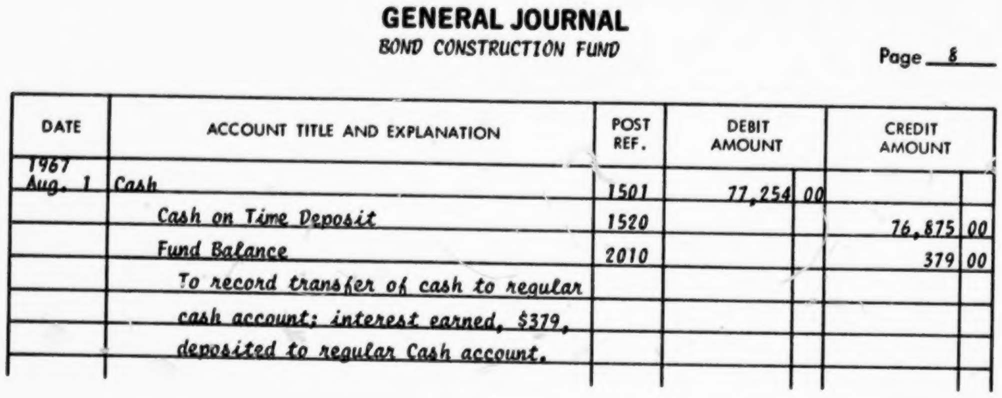
DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 July 20	*Purchase Order Encumbrances*	*2060*	*10,575 00*	
	Reserve for Purchase Order Encumbrances	*2011*		*10,575 00*
	To record purchase of additional			
	equipment. Detail:			
	Acct.# Title Amount			
	1230 Capital Outlay - Equipment 10,575.00	*1230*		

On August 1, the balance of Cash on Time Deposit is transferred to the regular Cash account; interest earned during July (also transferred) was $379.



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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 Aug. 1	*Cash*	*1501*	*77,254 00*	
	Cash on Time Deposit	*1520*		*76,875 00*
	Fund Balance	*2010*		*379 00*
	To record transfer of cash to regular			
	cash account; interest earned, $379,			
	deposited to regular Cash account.			

On August 5, requisition No. 3 in the amount of $45,000 is received from the contractor along with a bill for $4,050 from the architect. Entries to record payment and liquidation are:

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BOND CONSTRUCTION FUND

Page 9

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Aug. 5	Appropriation Expenditures	2050	45,000	00		
	Retained Percentage	1650			4,500	00
	Cash	1501			40,500	00
	To record payment of Requisition #3.					
	Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 45,000.00	1220				
5	Reserve for Contract Encumbrances	2012	45,000	00		
	Contract Encumbrances	2070			45,000	00
	To record liquidation for Requisition					
	#3. Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 45,000.00	1220				

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Aug. 5	Appropriation Expenditures	2050	4,050	00		
	Cash	1501			4,050	00
	To record payment of architects fee -					
	9% of $45,000. Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 4,050.00	1220				
5	Reserve for Contract Encumbrances	2012	4,050	00		
	Contract Encumbrances	2070			4,050	00
	To record liquidation of architects					
	fee paid. Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 4,050.00	1220				

On August 15, Investments, $90,000, were sold for $91,312. Entry required—

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Aug. 15	Cash	1501	91,312	00		
	Investments	1550			90,000	00
	Fund Balance	2010			1,312	00
	To record sale of investment.					

On September 1, contractor's requisition No. 4, in the amount of $54,000 and an invoice for related architect's fees are received. Entries required are:

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Sept. 1	Appropriation Expenditures	2050	54,000	00		
	Retained Percentages	1650			5,400	00
	Cash	1501			48,600	00
	To record payment of Requisition #4.					
	Detail as follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 54,000.00	1220				
1	Reserve for Contract Encumbrances	2012	54,000	00		
	Contract Encumbrances	2070			54,000	00
	To record liquidation for Requisition					
	#4. Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 54,000.00	1220				

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Sept. 1	Appropriation Expenditures	2050	4,860	00		
	Cash	1501			4,860	00
	To record architect's fees. Requisi-					
	tion #4. Detail--Charge to expendi-					
	tures-					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 4,860.00	1220				
1	Reserve for Contract Encumbrances	2012	4,860	00		
	Contract Encumbrances	2070			4,860	00
	To liquidate architects fees. Detail-					
	liquidate 4,860.00 in					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 4,860.00	1220				

On September 23, equipment, estimated to cost $22,000, ordered for delivery by October 1, is received with invoice in the amount of $22,375. Estimated cost did not include freight. The additional charge is approved. Entries necessary are—

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 Sept. 23	Appropriation Expenditures	2050	22,375 00	
	Cash	1501		22,375 00
	To record payment for equipment			
	purchased. Detail as follows:			
	Acct.# Title Amount			
	1230 Capital Outlay - Equipment 22,375.00	1230		
23	Reserve for Purchase Order Encumbrances	2011	22,000 00	
	Purchase Order Encumbrances	2060		22,000 00
	To liquidate May 1 encumbrance for			
	cafeteria equipment. Detail:			
	Acct.# Title Amount			
	1230 Capital Outlay - Equipment 22,000.00	1230		

On September 25, equipment ordered on July 20 is received along with an invoice in the amount of $10,575. Entry to record—

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 Sept. 25	Appropriation Expenditures	2050	10,575 00	
	Cash	1501		10,575 00
	To record payment for equipment			
	purchased. Detail:			
	Acct.# Title Amount			
	1230 Capital Outlay - Equipment 10,575.00	1230		
25	Reserve for Purchase Order Encumbrances	2011	10,575 00	
	Purchase Order Encumbrances	2060		10,575 00
	To liquidate July 20 encumbrance.			
	Detail:			
	Acct.# Title Amount			
	1230 Capital Outlay - Equipment 10,575.00	1230		

On September 29, construction is completed and the addition is accepted by the board of education. Contractor and architect are to be paid in full. Entries are—

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Sept. 29	Appropriation Expenditures	2050	24,500	00		
	Retained Percentage	1650	16,050	00		
	Cash	1501			40,550	00
	To record final payment to contractor					
	(Requisition #5). Detail as follows:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 24,500.00	1220				
29	Reserve for Contract Encumbrances	2012	24,500	00		
	Contract Encumbrances	2070			24,500	00
	To liquidate balance of contract.					
	Detail: Liquidate 24,500.00 Acct.					
	1220	1220				

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Sept. 29	Appropriation Expenditures	2050	2,205	00		
	Cash	1501			2,205	00
	To record final payment of architect's					
	fees. Detail:					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 2,205.00	1220				
29	Reserve for Contract Encumbrances	2012	2,655	00		
	Contract Encumbrances	2070			2,655	00
	To liquidate remaining obligation for					
	architect's fees. Excess of liquida-					
	tion over payment is due to failure					
	to adjust obligation when contract					
	amount became known. Encumbrance					
	(orig.) based on estimated cost.					
	Acct.# Title Amount					
	1220 Capital Outlay - Buildings 2,655.00	1220				

Also on September 29, the board awarded a contract to PDQ Co. for landscaping the area around the new addition (in accordance with plans prepared by the Maintenance Department). The contract was in the amountof $11,000, work to be completed in three weeks (The board was informed that the appropriation for Sites was only $10,000; it authorized additional expenditure. No transfer of appropriation was considered necessary.) Entries needed—

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 Sept. 29	Contract Encumbrances	2070	11,000 00	
	Reserve for Contract Encumbrances	2012		11,000 00
	To record grading contract. Detail:			
	Acct.# Title Amount			
	1210 Capital Outlay - Sites 11,000.00	1210		

On October 15, landscaping is completed and contractor submits invoice in full. Entries needed—

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1967 Oct. 15	Appropriation Expenditures	2050	11,000 00	
	Cash	1501		11,000 00
	To record payment for landscaping.			
	Detail:			
	Acct.# Title Amount			
	1210 Capital Outlay - Sites 11,000.00	1210		
15	Reserve for Contract Encumbrances	2012	11,000 00	
	Contract Encumbrances	2070		11,000 00
	To liquidate for grading contract.			
	Liquidate in account 1210, Capital			
	Outlay - Sites, 11,000.00	1210		

Assuming that all entries had been posted to the General and Appropriation and Expenditure ledgers in the normal posting process, the accounts would now show the following:

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Cash

Account # 1501

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 July	1		J-1	5,725	0	1967 July	3		J-4	28,350	00
	1		J-3	75,000	00		18		J-5	27,000	00
Aug.	1		J-8	77,254	00		18		J-6	1,260	00
	15		J-11	91,312	00	Aug.	5		J-9	40,500	00
		7,966 00		249,291	00		5		J-10	4,050	00
						Sept	1		J-12	48,600	00
							1		J-13	4,860	00
							23		J-14	22,375	00
							25		J-15	10,575	00
							29		J-16	40,550	00
							29		J-17	2,205	00
							29		J-17	11,000	00
										241,325	00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Cash on Time Deposit

Account # 1520

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 July	1		J-1	151,875	00	1967 July	1		J-3	75,000	00
						Aug.	1		J-8	76,875	00
										151,875	00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Investments

Account # 1550

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 July	1		J-1	90,000	00	1967 Aug	15		J-11	90,000	00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Retained Percentage

Account # 1650

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Sept	29		J-16	16,050	00	1967 July	3		J-4	3,150	00
							18		J-5	3,000	00
						Aug.	5		J-9	4,500	00
						Sept	1		J-12	5,400	00
										16.050	00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Fund Balance

Account # 2010

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 July	1		J-2	25,900	00	1967 July	1		J-1	27,775	00
						Aug.	1		J-8	379	00
							15		J-11	1,312	00
								3,566.00		29,466	00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Reserve for Purchase Order Encumbrances

Account # 2011

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 Sept	23		J-14	22,000	00	1967 July	1		J-1	22,000	00
	25		J-15	10,575	00		20		J-7	10,575	00
				32.575	00					32.575	00

GENERAL LEDGER

BOND CONSTRUCTION FUND

Page 1

Account Reserve for Contract Encumbrances

Account # 2012

DATE		EXPLANATION	POST REF.	DEBIT AMOUNT		DATE		EXPLANATION	POST REF.	CREDIT AMOUNT	
1967 July	3		J-4	31,500	00	1967 July	1		J-1	197,825	00
	18		J-5	30,000	00	Sept	29		J-18	11,000	00
										208,825	00
	18		J-6	1,260	00						
Aug.	5		J-9	45,000	00						
	5		J-10	4,050	00						
Sept	1		J-12	54,000	00						
	1		J-13	4,860	00						
	29		J-16	24,500	00						
	29		J-17	2,655	00						
Oct.	15		J-19	11,000	00						
				208,825	00						

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Appropriations   Account # 2040

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
				1967 July 1		J-2	245,725 00

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Appropriation Expenditures   Account # 2050

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 July 3		J-4	31,500 00				
18		J-5	30,000 00				
18		J-6	1,260 00				
Aug. 5		J-9	45,000 00				
5		J-10	4,050 00				
Sept 1		J-12	54,000 00				
1		J-13	4,860 00				
23		J-14	22,375 00				
25		J-15	10,575 00				
29		J-16	24,500 00				
29		J-17	2,205 00				
Oct. 15		J-19	11,000 00 241,325 00				

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Purchase Order Encumbrances   Account # 2060

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 July 1		J-2	22,000 00	1967 Sept 23		J-14	22,000 00
20		J-7	10,575 00 32,575 00	25		J-15	10,575 00 32,575 00

GENERAL LEDGER
BOND CONSTRUCTION FUND

Page 1

Account Contract Encumbrances   Account # 2070

DATE	EXPLANATION	POST REF.	DEBIT AMOUNT	DATE	EXPLANATION	POST REF.	CREDIT AMOUNT
1967 July 1		J-2	197,825 00	1967 July 3		J-4	31,500 00
Sept 29		J-18	11,000 00 208,825 00	18		J-5	30,000 00
				18		J-6	1,260 00
				Aug. 5		J-9	45,000 00
				5		J-10	4,050 00
				Sept 1		J-12	54,000 00
				1		J-13	4,860 00
				29		J-16	24,500 00
				29		J-17	2,655 00
				Oct. 15		J-19	11,000 00 208,825 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # BC-1210 BOND CONSTRUCTION FUND Page 1

Account Description *Capital Outlay - Sites*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1967 July 1	J-2	10,000 00							10,000 00
Sept29	J-18		11,000 00		11,000 00			11,000 00	(1,000 00)
Oct. 15	J-19			11,000 00	-0-	11,000 00	11,000 00	11,000 00	(1,000 00)

APPROPRIATION AND EXPENDITURE LEDGER

Account # BC-1220 BOND CONSTRUCTION FUND Page 1

Account Description *Capital Outlay-Buildings*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1967 July1	J-2	200,725 00	197,825 00		197,825 00			197,825 00	2,900 00
3	J-4			31,500 00	166,325 00	31,500 00	31,500 00	197,825 00	2,900 00
18	J-5			30,000 00	136,325 00	30,000 00	61,500 00	197,825 00	2,900 00
18	J-6			1,260 00	135,065 00	1,260 00	62,760 00	197,825 00	2,900 00
Aug. 5	J-9			45,000 00	90,065 00	45,000 00	107,760 00	197,825 00	2,900 00
5	J-10			4,050 00	86,015 00	4,050 00	111,810 00	197,825 00	2,900 00
Sept1	J-12			54,000 00	32,015 00	54,000 00	165,810 00	197,825 00	2,900 00
1	J-13			4,860 00	27,155 00	4,860 00	170,670 00	197,825 00	2,900 00
29	J-16			24,500 00	2,655 00	24,500 00	195,170 00	197,825 00	2,900 00
29	J-17			2,655 00	-0-	2,205 00	197,375 00	197,375 00	3,350 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # BC-1230 BOND CONSTRUCTION FUND Page 1

Account Description *Capital Outlay-Equipment*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1967 July 1	J-2	35,000 00	22,000 00		22,000 00			22,000 00	13,000 00
20	J-7		10,575 00		32,575 00			32,575 00	2,425 00
Sept23	J-14			22,000 00	10,575 00	22,375 00	22,375 00	32,950 00	2,050 00
25	J-15			10,575 00	-0-	10,575 00	32,950 00	32,950 00	2,050 00

A trial balance is taken.

Bond Construction Fund
Trial Balance
October 15, 1967

	Account Title	Acct. No.	Debit		Credit	
	Cash		7,966	00		
	Fund Balance				3,566	00
	Appropriations				245,725	00
	Appropriation Expenditures		241,325	00		
			249,291	00	249,291	00

Since the project is now completed, the board requests a balance sheet and a statement of receipts, expenditures and balances for the Bond Construction Fund. Closing entries should be made as follows:

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BOND CONSTRUCTION FUND

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1967 Oct. 15	Appropriation	2040	245,725	00		
	Appropriation Expenditures	2050			241,325	00
	Fund Balance	2010			4,400	00
	To close the Appropriation and Appro-					
	priation Expenditures accounts to the					
	Fund Balance account.					

After the closing entries are made, the Balance Sheet and Statement of Receipts, Expenditures and Balances are prepared.

BOND CONSTRUCTION FUND

Balance Sheet

October 15, 1967

Assets:	
Cash	7, 966
Total assets	7, 966
Fund balance	7, 966

BOND CONSTRUCTION FUND

Statement of Receipts, Expenditures, and Balances

Mar. 15 through Oct. 15, 1967

Items	Fiscal year 1967, Mar. 15–June 30	Fiscal year 1968, July 1–Oct. 15	Total, Mar. 15–Oct. 15, 1967
Beginning Balance	0	247, 600	------------
Receipts:			
Sale of Bonds (Net)	100, 000	0	100, 000
Transfer from General Fund	150, 000	0	150, 000
Interest on Time Deposits	1, 875	379	2, 254
Investment Income	0	1, 312	1, 312
Total Receipts	251, 875	1, 691	253, 566
Total—Balance and Receipts	251, 875	249, 291	253, 566
Expenditures:			
Sites	0	11, 000	11, 000
Buildings	4, 275	197, 375	201, 650
Equipment	0	32, 950	32, 950
Total Expenditures	4, 275	241, 325	245, 600
Ending Balance	247, 600	7, 966	7, 966

Summary

(1) Construction Funds may be made available either for general use for construction or for a limited, specific purpose. If use is restricted to a limited, specific purpose, a separate fund should be established and maintained.

(2) Where bonds are sold for construction only the net bond proceeds are recorded in Construction Fund accounts. (Premium and accrued interest received from the sale should be credited to the fund which subsequently will pay interest on the bonds.)

(3) A **Contract Encumbrance** is an obligation created by the issuance of a construction contract. A **Retained Percentage** is an agreed-on percentage of a contractor's requisition which is withheld from payments pending satisfactory completion of the project.

CHAPTER XII

Fixed Assets Accounting

Fixed assets were defined in Handbook II, *Financial Accounting for Local and State School Systems*,[1] as "Land, buildings, machinery, furniture, and other equipment which the school district intends to hold or continue in use over a long period of time. 'Fixed' denotes probability or intent to continue use or possession, and does not indicate immobility of an asset." Fixed assets, unlike current assets, are not ordinarily used to finance current operations. As is pointed out on page 10, chapter II, fixed assets have the same relationship to long-term liabilities as current assets have to current liabilities.

In commercial accounting, depreciation of fixed assets is an important expense item deductible for Federal income tax purposes, and consequently reduces net profit and taxable income. Handbook III, *Property Accounting for Local and State School Systems*,[2] defines depreciation as a "Loss in value or service life of fixed assets because of wear and tear through use, elapse of time, inadequacy, or obsolescence." This "loss in value" in financial accounting is the portion of the original cost of a fixed asset which is charged as an expense during a specific period. However, in school accounting, profit and loss have little significance, and therefore recording depreciation of fixed assets is of little importance.

Recording fixed assets

Fixed assets are recorded in a self-balancing group of accounts. Since this group of accounts does not meet the fund concept as an amount of resources to be used for definite purposes, the word "fund" is a misnomer when used to refer to fixed assets; perhaps "group of accounts" is more appropriate. As we have seen before, balance is achieved by offsetting debit entries with credit entries.

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[1] Reason and White, p. 223.

[2] Paul L. Reason and George G. Tankard, Jr., *Property Accounting for Local and State School Systems*. Washington, U.S. Government Printing Office, 1959. (U.S. Department of Health, Education, and Welfare, Office of Education, State Educational Records and Reports Series: Handbook III, Bulletin 1959, No. 22.) P. 130, Glossary of terms.

Fixed assets should be entered in the financial records on the basis of original cost, or, if the latter isn't available, at estimated cost. If they are acquired by gift, then the appraised value on the date received is the appropriate amount to enter. Fixed assets are not used exclusively in the operations of any one fund, nor do they belong to any one fund. It was indicated previously that they do not appear in the balance sheet of an operating fund because they must be purchased from appropriations and the disbursement is classified as an expenditure. When these assets are purchased from current appropriations, it is obvious that such acquisitions must be anticipated when preparing the budget.

Remember that the July 11 transaction, shown in chapter V, page 68, involved purchasing a current asset, prepaid expenses, which was debited. This is a balance sheet item, whereas purchasing fixed assets out of appropriations is shown as an expenditure, and, of course, is not a General Fund balance sheet item. It is obvious that the transaction for the disbursing fund cannot show the debit entry to both expenditures and fixed assets. The debit entry to fixed assets is made in a simultaneous entry in the *Fixed Asset* group of accounts, as seen below. Assume that $5,000 worth of equipment is purchased. The entry in the General Fund accounts would be as follows:

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 6	Expenditures		5,000 00	
	Cash			5,000 00
	Appropriation and Expenditure Ledger detail:			
	Capital Outlay - Equipment - $5,000			
	Purchased equipment			

At the same time, the following entry must be made in the Fixed Assets group of accounts:

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FIXED ASSETS

Page 1

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 6	Equipment (Control)		5,000 00	
	Investment in Fixed Assets-General Fund			5,000 00
	Equipment Subsidiary Ledger detail:			
	Furniture and Fixtures (or other appro-			
	priate account)			
	To record acquisition of fixed assets			

Note that the entry on page 221 was charged to the Expenditures control account in the General Ledger and the detail posted to the Capital Outlay account provided for in the current appropriations budget. Further, the second entry "sets up" the fixed assets in a separate control account in the General Ledger, Equipment, and also identifies the source from which the assets were derived. The $5,000 credit to the surplus or equity account, Investments in Fixed Assets—General Fund, means simply that fixed assets have increased by that amount and that current revenue from the General Fund was used for the acquisition. The Equipment Subsidiary Ledger will contain as many subsidiary accounts as are needed to provide a breakdown of different types of equipment. General Ledger control accounts and subsidiary ledgers should also be established for the other main classifications of fixed assets, Land and Buildings.

Other sources for the acquisition of fixed assets are gifts and bond funds. Two or more funds might contribute to the total cost of a fixed asset. The credit entry in this case would be broken down to reveal the portion of the cost contributed by each source. Accounting for bond funds is covered in chapter 10.

Property accounts for fixed assets

School officials, for insurance valuation purposes, have found it desirable to know the condition and life expectancy of fixed assets as well as the current market value. Detailed, subsidiary fixed property records are necessary to provide this information. Additional purposes of these records are: (1) To fix accountability for the custody and maintenance of individual items; and (2) to assist in approximating future requirements.

As mentioned above, the main classifications of fixed assets may be used for the General Ledger control account titles. In the subsidiary ledger, all fixed assets belonging to a given school or department might be grouped together—Land, Buildings, and Equipment records segregated from the other school or department records. Another method is to maintain subsidiary records for the entire school according to each major fixed asset classification. Under this plan, all subsidiary records for buildings would be grouped together; however, there would be a breakdown within this grouping to identify buildings with program or function. The method selected depends upon the number and nature of fixed assets, accountability and responsibility for fixed assets, and whether or not the records need to be designed to be integrated into an automatic data processing system of accounting.

A flexible, looseleaf ledger with specially designed sheets or cards may be used to permit ease of shifting items from one group to another. The subsidiary record, regardless of its physical form, should at least provide for a complete description of the item to permit positive identification; cost and purchase data; and its location. A sample form, including a Property Code number entry designating the general classification to which the account belongs, is shown on page 224.

Disposals or retirement of fixed assets

When fixed assets are retired or otherwise disposed of, this should be reflected in the records. If no cash is involved, the matter is handled easily by elimination of the asset and reduction of the surplus or investment account which records its source. For example, if the equipment in the example above were retired several years after purchase without expense or revenue to the school district, the following entry would be made in the Fixed Assets group of accounts:

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FIXED ASSETS

Page 2

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 20	Investment in Fixed Assets-General Fund		5,000 00	
	Equipment (control)			5,000 00
	Equipment Subsidiary Ledger detail:			
	Specific account under Equipment - 5,000			
	Disposal or retirement of equipment			

Note that this is the exact opposite of the entry recorded when the purchase was made; obviously, the credit entry to the fixed asset account, Equipment, removes the item(s) from the records. The detail should be posted to the pertinent account in the subsidiary ledger, after which the account is transferred to an inactive file.

HYPOTHETICAL SCHOOL DISTRICT
Equipment Ledger

Property code No. ________
Identification No. ________

Description (indicate new or used) ________________________
Manufacturer ________________________
Manufacturer's serial No. ________________ Model ________
Date of purchase ____________ Purchase reference ________
Cost:
Invoice price $____________
Freight $____________
Installation $____________
Other costs $____________
Total $____________
Location ________________________

Disposal

Disposal approved by ____________ Reference ________
Reason ________________________ Date ________
How disposed of (sold, scrapped, etc.) ________________
Age at date of disposal ________ Amount realized ________

Date	Reference	Additions, betterments, major repairs	Amount

If fixed assets are sold, the following entries must be made in the Fixed Assets group of accounts:

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FIXED ASSETS

Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 27	Investment in Fixed Assets-General Fund		100 00	
	Equipment (control)			100 00
	Equipment Subsidiary Ledger detail:			
	Furniture and Fixtures - 100.00			
	Sale of Equipment			

The entry above removes the $100 item of furniture from the Fixed Asset group of accounts. However, it is also necessary to record the transaction in the General Fund as follows (in this example, the item is sold for $10):

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 27	Cash		10 00	
	Revenue			10 00
	Revenue Ledger detail:			
	Other Revenue from Local Sources - 10.00			
	To record sale of a fixed asset			

If there is a cost connected with disposal of fixed assets, an entry similar to the first of the above two entries would be made to remove the fixed asset(s) from the records. In addition, the expenditure for removing the fixed asset would be recorded in the appropriate General Fund account, that is, debit expenditure and credit cash.

If a fixed asset is traded in on the purchase of a new fixed asset, the following entries are made in the Fixed Assets group of accounts (in this example the new fixed asset costs $10,000, the trade-in value of the old asset is $2,000, and the original cost of the old asset was $9,000):

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FIXED ASSETS

Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 27	Investment in Fixed Assets-General Fund		9,000 00	
	Equipment (control)			9,000 00
	Equipment Subsidiary Ledger detail:			
	Furniture and Fixtures - 9,000.00			
	Trade-in of old equipment for new equipment			

The entry above removes the traded-in equipment from the property records. The following two entries (in the General Fund accounts and Fixed Assets group of accounts, respectively) record the purchase of the new equipment:

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DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 27	Expenditures		8,000 00	
	Cash			8,000 00
	Appropriation and Expenditure Ledger detail:			
	Capital Outlay - Equipment 8,000.00			
	Purchased 10,000 worth of furniture			
	with a 2,000 trade-in.			

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FIXED ASSETS

Page 3

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
1966 July 27	Equipment (Control)		10,000 00	
	Investment in Fixed Assets - General			
	Fund			10,000 00
	Equipment Subsidiary Ledger detail:			
	Furniture and Fixtures 10,000.00			
	To record acquisition of furniture -			
	old furniture traded for a 2,000.00			
	allowance.			

The three entries illustrated above accomplish three things: (1) Remove old assets from the property records; (2) charge the General Fund with the expenditure; (3) record the acquisition of the new equipment.

Inventories of fixed assets

Certain fixed assets, such as furniture and equipment, should be inventoried each year—usually at the end of the school year before the staff members leave. At the beginning of the school year the custodians of the property can be given a complete list of all fixed assets under their general jurisdiction. Any discrepancies between what is shown on the list and what is on hand should be settled and the list returned to the business office. During the school year, any transferring of fixed assets should be recorded on these lists. At the end of the school year, the lists are returned to the custodian of the property and an inventory is made. Any items missing are listed, and the forms returned to the business office. A thorough search is made for any missing fixed assets, and those that cannot be located are written off in accordance with established policy. A form should be devised for recording transfer of property from one department to another. Usually three copies are sufficient: one for the transferor, one for the transferee, and one for the business office.

A valuable "byproduct" of an inventory of fixed assets is the opportunity presented for surveying the physical condition of such assets. Those that need repair, maintenance, or replacement can be identified, and these activities can be scheduled for the summer months. It also permits the transfer of idle equipment to where it may be needed, saving money instead of spending it to purchase additional items.

Movable fixed assets should be marked numerically or with some kind of a code to permit positive identification. Labels or tags may be used; however, indelible ink or stamping provide a more durable identification. The inventory process goes much faster if the markings are put in the same place for the same items; for example, on the lower right-hand side on all office desks. For further information, see Handbook III, *Property Accounting for Local and State School Systems*,[3] and the accompanying Guide.[4]

Statements of fixed assets

At the end of the fiscal year, which in most cases is June 30, a Statement of Fixed Assets is prepared. This statement exhibits the balances of the fixed asset accounts as of the date it is prepared; these assets are offset by the surplus or investment accounts, which show the source from which the assets were derived (bonds, revenue, gifts, etc.). Thus, it is simply a matter of listing all of the account balances in the Fixed Asset group of accounts. Since the latter are self-balancing, the total value of all fixed assets should equal the total investment in fixed assets. A sample statement is shown on page 228.

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[3] Ibid, chs. I and II.

[4] Charles T. Roberts, *Guide for Implementing Handbook III, Property Accounting for Local and State School Systems.* Washington, U.S. Government Printing Office, 1963. (U.S. Department of Health, Education, and Welfare, Office of Education): OE-23029.

HYPOTHETICAL SCHOOL DISTRICT

Statement of Fixed Assets
June 30, 1967

Assets:	
Land	$100, 000
Buildings	1, 000, 000
Equipment	200, 000
Total Fixed Assets	$1, 300, 000
Investment in Fixed Assets:	
General Fund Revenue	$120, 000
Bond Funds	1, 050, 000
Gifts	20, 000
State Grants	10, 000
Federal Grants	100, 000
Total Investment in Fixed Assets	$1, 300, 000

Summary

(1) **Fixed Assets** include land, buildings, machinery, furniture, and other equipment which the school district intends to hold or continue in use over a long period of time. "Fixed" denotes probability or intent to continue use or possession, and does not indicate immobility of an asset.

(2) Records should be maintained which provide the following information about fixed assets: (1) **Complete Description;** (2) **Cost and Purchase Data;** and (3) **Location.**

(3) An **Inventory of Fixed Assets** should be made at least once a year.

(4) A listing of all fixed asset account balances is called a **Statement of Fixed Assets.**

CHAPTER XIII

Program Cost Accounting

Frequently new programs are initiated by boards of education—kindergarten, adult education or community college; or State or Federal funds are accepted for a specific purpose. Such programs call for separate and complete accountability.

Accountability can be provided for in either of two ways—fund accounting or program cost accounting.

Other chapters have dealt with specific types of fund accounting (Cafeteria Fund, Construction Fund, and Debt Funds). However, separate funds generally are established only when separate accountability must be provided for assets, liabilities, fund balance, receipts, and expenditures.

Program cost accounting involves maintaining separate expenditure accounts—a separate expenditure ledger for each program.

Both of these methods involve maintaining separate expenditure accounts, though fund accounting requires, in addition, the maintenance of separate General Ledger accounts.

In determining whether to use fund accounting or program cost accounting, as a general rule, remember that additional funds should be established only when it is essential to do so. Funds are felt to be too restrictive—too controlling in the use of monies.

In chapter IV, pages 42–43, a sequence of expenditure accounts (based on Handbook II) is used. If the Hypothetical School District is to establish and maintain program cost accounts, it would use the same sequence of accounts and from it select all those accounts which will be used in the program.

In accounting for program costs the following steps should be observed—

(1) know precisely what the program will involve;

(2) determine which accounts in the regular chart of expenditure accounts will be needed for the new program, then determine additional accounts needed;

(3) prepare the budget in terms of those accounts;

(4) prepare Appropriation and Expenditure Ledger sheets or cards for each account;

(5) prepare the journal entry;

(6) post the journal entry to the proper accounts;

(7) post all encumbrances, expenditures, and liquidations relating to the program to its accounts; and

(8) prepare and issue statements which reflect the status of the budget for the program.

To illustrate: the Hypothetical School District appropriates $50,000 for the first year of operation of a kindergarten program. It will use vacant classrooms in a building presently being used as an elementary school. The program will be conducted by three teachers with supervision provided by the building principal for which he will be paid additional salary. Additional salary will be paid to the custodian. Furniture and equipment will be purchased. Since no utility rate increases are contemplated, any increase in the cost of electricity or fuel will be assumed to be a cost of the program. Minor repairs to the classrooms will be necessary. Health services will be provided. No additional administrative costs are contemplated. Transportation will be provided.

Looking at the sequence of accounts on pages 42–43, chapter IV, what accounts will be needed?

CHART OF ACCOUNTS

	Kindergarten program
No administrative costs are contemplated	
Under Instruction, additional salary will be paid the principal	Instructional Salaries, Principal
Teachers will be employed	Instructional Salaries, Teachers
Teaching supplies will be needed	Teaching Supplies
Other expenses of instruction may be incurred	Other Expense
Health services will be provided	Health—Salaries Health—Other Expense
Transportation will be provided	Transportation by Contract
Custodial services will be necessary, as will utilities	Operation of Plant—Salaries Operation of Plant—Heat Operation of Plant—Utilities Operation of Plant—Supplies Operation of Plant—Other Expense
Minor repairs will be made to the classroom	Maintenance of Plant—Contracted Services
Retirement and social security costs must be provided for	Fixed Charges—Employers Contribution to Employee Retirement Fixed Charges—Employers Contribution to Social Security Fixed Charges—Insurance
Furniture and equipment will be purchased	Capital Outlay—Equipment

The budget for the program should be posted to the Appropriation and Expenditure Ledger—Kindergarten Program just as the General Fund budget was posted in chapter IV.

Assume the following budget for the program.

	INSTRUCTION	
211.	Salaries—Principals	$1,200
213.	Salaries—Teachers	20,400
240.	Teaching Supplies	1,200
250.	Other Expense	300
	HEALTH SERVICES	
410.	Salaries	500
420.	Other Expenses	100
	PUPIL TRANSPORTATION SERVICES	
520.	Contracted Services and Public Carriers	1,000
	OPERATION OF PLANT	
610.	Salaries	600
630.	Heat for Buildings	750
640.	Utilities, Except Heat	210
650.	Supplies	150
660.	Other Expense	50
	MAINTENANCE OF PLANT	
720.	Contracted Services	450
	FIXED CHARGES	
810.	Contribution to Employee Retirement	490
820.	Insurance	100
	CAPITAL OUTLAY	
1230.	Equipment	22,500
	Total budget for Kindergarten Program	$50,000

If the district had approved the Kindergarten Program budget at the same time as it did the budget on pages 42–43, chapter IV, the journal entry on page 44 could have been drawn as follows:

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Page 1

DATE	ACCOUNT TITLE AND EXPLANATION	POST REF.	DEBIT AMOUNT		CREDIT AMOUNT	
1966 July 1	Fund Balance		689,930	00		
	Appropriations				689,930	00
	To record and establish the Appropriations control account in the General Ledger for the approved General Fund budget for fiscal year 1966-67. The total budget of $689,930 is appropriated as follows:					
	Regular Day School 639,930					
	Kindergarten Program 50,000					
	Total Appropriated 689,930					
	Detailed breakdown of appropriations is listed below:					
	Regular Day School					

Acct.#	Title	Amount
110	Admin., Salaries	$ 18,600.00
120	Admin., Contr. Services	250.00
130	Admin., Other Expenses	300.00
211	Instr., Principal's Sal.	30,000.00
212	Instr., Supervisor's Sal.	20,000.00
213	Instr., Teachers' Sal.	390,000.00
214	Instr., Librarian Sal.	8,000.00
215	Instr., Clerks' Sal.	8,000.00
216	Instr., Teacher Assists.Sal.	7,500.00
220	Instr., Textbooks	2,000.00
230	Instr., Library Supplies	700.00
240	Instr., Teaching Supplies	1,700.00
250	Instr., Other Expenses	500.00
410	Health, Nurse's Sal.	3,800.00
420	Health, Other Expenses	200.00
520	Transportation Contract	4,150.00
610	Operation of Plant, Sal.	20,000.00

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Page 2

DATE	ACCOUNT TITLE AND EXPLANATION			POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
	630	Operation of Plant, Heat	6,000.00			
	640	Operation of Plant, Util.	2,100.00			
	650	Operation of Plant, Supp.	690.00			
	660	Operation of Plant, Other Exp.	100.00			
	720	Maint. of Plant, Contr. Ser.	3,700.00			
	730	Maint. of Plant, Replacement				
		of Equip.	1,400.00			
	810	Fixed Chrgs., Ret. & FICA	45,600.00			
	820	Fixed Chrgs., Ins. Prem.	2,700.00			
	1110	Comm. Ser., Recreation	500.00			
	1130	Comm. Ser., Pub. Libr.	500.00			
	1220	Capital Outlay, Bldgs.	22,000.00			
	1230	Capital Outlay, Equip.	4,000.00			
	1310	Debt Ser., Principal	32,000.00			
	1320	Debt Ser., Interest	2,500.00			
	1410	Outgoing Trans., Tuition	440.00			
		Total Reg. Day School	$639,930.00			
		Kindergarten Program				
	Acct.#	Title	Amount			
	K-211	Instr., Principal's Sal.	1,200	K-211		
	K-213	Instr., Teachers' Sal.	20,400	K-213		
	K-240	Instr., Teaching Supplies	1,200	K-240		
	K-250	Instr., Other Expenses	300	K-250		
	K-410	Health, Nurse's Sal.	500	K-410		
	K-420	Health, Other Expenses	100	K-420		
	K-520	Transportation Contract	1,000	K-520		
	K-610	Operation of Plant, Sal.	600	K-610		
	K-630	Operation of Plant, Heat	750	K-630		
	K-640	Operation of Plant, Utilities	210	K-640		
	K-650	Operation of Plant, Supplies	150	K-650		
	K-660	Operation of Plant, Other Exp.	50	K-660		

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DATE	ACCOUNT TITLE AND EXPLANATION			POST REF.	DEBIT AMOUNT	CREDIT AMOUNT
	Acct.No.	Title	Amount			
	K-720	Main. of Plant, Cont. Serv.	450	K-720		
	K-810	Fixed Charges, Retire. & FICA	490	K-810		
	K-820	Fixed Charges, Insurance	100	K-820		
	K-1230	Cap. Out., Equip.	22,500	K-1230		
	Total Kindergarten Project		50,000			

Once the journal entry has been prepared, new accounts should be established and the journal entry should then be posted to the proper accounts as shown on the following pages. As purchase orders are written, items purchased for each program should be clearly designated so that encumbrances may be entered in the proper accounts. Liquidations and expenditures also must be segregated to insure proper posting.

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-200 Page 1

Account Description Kindergarten - Instruction

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J-1	23,100 00							23,100 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-210 Page 1

Account Description Kindergarten - Instruction - Salaries

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J-1	21,600 00							21,600 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-211 Page 1

Account Description Kindergarten-Instruction - Salaries, Principals

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J-1	1,200 00							1,200 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-213 Page 1

Account Description Kindergarten-Instruction - Salaries, Teachers

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J-1	20,400 00							20,400 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-240 Page 1

Account Description Kindergarten-Instruction - Teaching Supplies

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	1,200 00							1,200 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-250 Page 1

Account Description Kindergarten-Instruction - Other Expense

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	300 00							300 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-400 Page 1

Account Description Kindergarten - Health Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	600 00							600 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-410 Page 1

Account Description Kindergarten-Health Services - Nurse's Salary

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	500 00							500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-420 Page 1

Account Description Kindergarten-Health Services - Other Expenses

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	100 00							100 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-500 Page 1

Account Description Kindergarten-Pupil Transportation Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	1,000 00							1,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-520 Page 1

Account Description Kindergarten-Pupil Transportation Services - Contracted Services and Public Carriers

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	1,000 00							1,000 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-600 Page 1

Account Description Kindergarten - Operation of Plant

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	1,760 00							1,760 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # *K-610* Page *1*

Account Description *Kindergarten - Operation of Plant - Salaries*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	*J-1*	*600 00*							*600 00*

APPROPRIATION AND EXPENDITURE LEDGER

Account # *K-630* Page *1*

Account Description *Kindergarten - Operation of Plant - Heat for Buildings*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	*J-1*	*750 00*							*750 00*

APPROPRIATION AND EXPENDITURE LEDGER

Account # *K-640* Page *1*

Account Description *Kindergarten - Operation of Plant - Utilities, Except Heat*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	*J-1*	*210 00*							*210 00*

APPROPRIATION AND EXPENDITURE LEDGER

Account # *K-650* Page *1*

Account Description *Kindergarten - Operation of Plant - Supplies*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	*J-1*	*150 00*							*150 00*

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-660 Page 1

Account Description Kindergarten - Operation of Plant - Other Expense

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	50 00							50 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-700 Page 1

Account Description Kindergarten - Maintenance of Plant

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	450 00							450 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-720 Page 1

Account Description Kindergarten - Maintenance of Plant - Contracted Services

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	450 00							450 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-800 Page 1

Account Description Kindergarten - Fixed Charges

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNENCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	590 00							590 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-810 Page 1

Account Description Kindergarten - Fixed Charges - Contribution to Employee Retirement

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	490 00							490 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-820 Page 1

Account Description Kindergarten - Fixed Charges - Insurance

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July1	J-1	100 00							100 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-1200 Page 1

Account Description Kindergarten - Capital Outlay

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	22,500 00							22,500 00

APPROPRIATION AND EXPENDITURE LEDGER

Account # K-1230 Page 1

Account Description Kindergarten - Capital Outlay - Equipment

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	22,500 00							22,500 00

In districts where records are maintained for more than one program, items such as utilities, heat, and custodial services may not be chargeable directly to each program because the exact charge to be made is not readily discernible. In such cases it is necessary to prorate costs among the programs. Since prorating presents probably the most difficult problems in program cost accounting, chapter 8 of Handbook II, which deals with "Prorating Expenditures," is quoted hereafter, in its entirety, to provide assistance in solving these problems.

FINANCIAL ACCOUNTING FOR LOCAL AND STATE SCHOOL SYSTEMS

Standard Receipt and Expenditure Accounts

CHAPTER 8. Prorating Expenditures

The public schools are continually extending the benefits of their educational programs to more and more groups. In evidence of this are the growing emphasis on adult education and the extension of public education in some States to encompass the 13th and 14th grades. Increasing efforts to achieve maximum utilization have resulted in the extensive use of school facilities for many purposes in addition to the primary one for which the facilities were erected, namely, the education of children.

These significant trends have created important problems concerning the classification of expenditures. Whenever an expenditure occurs, it is always necessary to determine the account under which it should be recorded. As long as an expenditure is for a single purpose the problem is not so great. For example, a salary paid to a full-time elementary school teacher presents no difficult problem of classification. It is recorded under the instruction account. However, the situation is different when a person who performs custodial work also drives a schoolbus. Here, a single expenditure—the salary of this individual—is made for two purposes, operation of plant and pupil transportation. The problem here is to determine what part of the salary is properly an expense of operation of plant and what part is properly an expense of the pupil transportation program.

Similar problems exist with respect to other expenditures. When the school building is used for adult education classes in the evening, there is the problem of determining what parts of the expenditures for light, heat, etc., are properly an expense of the adult education program. Likewise, if the school building is used for community recreation or social activities, a similar problem exists in separating costs for education from noneducational costs.

NECESSITY FOR PRORATION

No school system can afford to ignore the problem of prorating expenditures. For what is the alternative? It is to record total salaries on the basis of major portion of time, and to record total expenditures under the activity accounts to which the major part of an expenditure applies. To illustrate this alternative in the handling of salaries, consider the example cited above of a person who performs custodial work and also drives a schoolbus. In this case, if the person spent more time in custodial work than in driving the bus, the salary would be recorded under the operation of plant accounts; if more time was spent in the pupil transportation program, the salary would be recorded under the pupil transportation accounts. With this alternative, expenditures other than salaries would be handled in a similar manner. For example, if the school buildings were open evenings for community activities, expenditures for the heating of the school buildings would be recorded under the regular day school accounts because the major portion of the heating expenditure was for the regular day school program.

While the alternative to prorating is simple, unfortunately, it does not, for local district purposes, present accurate information concerning the services and the benefits that are being obtained for the money being spent. Most school districts have many services which are performed by individuals serving more than one function, and different activities which share the same facilities as those used by the regular day schools. Because of these conditions, it is highly probable that without proration the accounts of such districts would show no money being spent for services that are actually being provided and paid for, while showing excessive sums of money being spent on certain activities for the amount of services being provided. Thus, there is the necessity for prorating individual expenditures made for more than one purpose—a necessity for determining the proportionate parts of such expenditures that are properly chargeable to different accounts.

METHODS FOR PRORATING EXPENDITURES

There are many methods used for prorating expenditures. The most common of these have for a basis either: (1) time; (2) average daily membership or average daily attendance; (3) time-floor-area; (4) hour-consumption; (5) number of pupils; (6) mileage; or (7) quantity consumed.

Undoubtedly, there will at times be expenditures to which these methods will not apply. In such cases, some method adjusted to particular local conditions, or modifications in the methods presented here, may be necessary.

The time method for prorating consists of allocating a part of an expenditure to a given activity in proportion to the time spent in the activity. For example, suppose a person teaches during 75 percent of his employed time, and supervises student-body activities during the other 25 percent. In this case, 75 percent of his salary would be recorded under instruction accounts and 25 percent recorded under student-body activities accounts.

The average-daily-membership method for prorating consists of allocating a part of an expenditure to a given activity in proportion to the average daily membership of the pupils engaged in the activity. For example, suppose it is desired to prorate a $2,100 general administrative expenditure between the regular day school accounts and the adult education accounts; the regular day school ADM is 2,000; the regular schoolday is 5 hours, 5 days per week; and an average of 500 adults are on the rolls of evening classes which are in session 5 hours per week. In this case, it is first necessary to convert the membership for adult education classes into comparable units with the regular day schools. If the adult education classes were in session for 25 hours per week, the ADM for adult education would, of course, be 500. Since the adult education classes are in session only one-fifth as long as the regular day schools (5 hours compared to 25), the converted ADM for adult education is 500 divided by 5, or 100 ADM. Thus, for prorating, the total ADM for the school system is 2,000 plus 100, or

2,100. The part of the $2,100 to be charged to the regular day school accounts is in the ratio of 2,000 ADM to 2,100 ADM, or $2,000; and the part to be charged to adult education accounts is in the ratio of 100 ADM to 2,100 ADM, or $100. In using this method of prorating, if it is determined that the activities are in session approximately the same length of time, the steps involving conversion of ADM can be eliminated. The above procedures are also used when prorating on the basis of average daily attendance, except that average daily attendance is substituted for average daily membership.

The time-floor-area method for prorating consists of allocating a part of an expenditure to a given activity in proportion to the gross floor area used by the activity, and the length of time the floor area is used. For example, suppose it is desired to prorate a $12,000 custodial expenditure between secondary school accounts and adult education accounts when the two programs use the same building, the regular school week is 25 hours, the gross floor area of the building is 30,000 square feet, and the adult education program used 6,000 square feet of floor space 5 hours a week. Based on floor area alone, the part of the $12,000 chargeable to adult education accounts would be in the ratio of 6,000 square feet to 30,000 square feet, or $2,400. However, the adult education program uses the school facilities only five-thirtieths, or one-sixth of the total time. Therefore, adult education would be charged with one-sixth of the $2,400, or $400, and the secondary school accounts charged with $12,000 minus the $400, or $11,600. In using this method of prorating, if it is determined that the activities concerned use their facilities concurrently, the steps involving the time element can be eliminated, and the expenditures prorated in proportion to the gross floor area used. When the actual amount of fuel consumed is not known, floor area is recommended in preference to cubage as a basis for prorating fuel expenditures for three reasons: (1) Where the need for proration of fuel expenditures is most common (in a single building shared by different activities), ceiling height is usually uniform, except for the gymnasium or auditorium, so that square footage or cubic footage would yield fairly comparable results; (2) area is also easier to obtain and apply than cubage; and (3) area is also used for prorating other operation of plant and maintenance of plant expenditures, eliminating the necessity for calculating another basis for prorating.

The hour-consumption method for prorating consists of allocating a part of an expenditure to a given activity in proportion to the length of time the activity uses facilities, and the hourly rate at which the utility is consumed in the use of such facilities. It applies primarily to expenditures for water, electricity, and gas, except for heating. For example, if adult education classes use shop facilities, the hourly rate of consumption of electricity for the facilities would be multiplied by the number of hours the facilities were used by adult education classes. This figure would be the amount of electricity used by adult education, and a part of the expenditure for electricity would be prorated to adult education accounts in proportion to the amount used. When various facilities are metered separately, the hourly rate of consumption can be determined from meter readings. When facilities are not metered separately, it would be necessary to estimate the hourly rate of consumption. Local utility companies can provide assistance in making such estimates in line with local conditions.

The number-of-pupils method of prorating consists of allocating a part of an expenditure to a given activity in proportion to the actual number (not ADM or ADA) of pupils involved. It applies primarily to expenditures for transporting special groups of pupils, such as nonpublic school pupils. For example, suppose 500 pupils were transported to school at public expense over regular bus routes, and that in this total there were 100 nonpublic school pupils. In this case, one-fifth of the expenditure for the regular transportation would be charged to community services accounts.

The mileage method for prorating consists of allocating a part of an expenditure to a given activity in proportion to the mileage traveled for the activity. It applies primarily to expenditures for special kinds of transportation services such as transporting pupils on field trips or to athletic contests.

The quantity-consumed method for prorating consists of allocating a part of an expenditure to a given activity in proportion to the actual consumption of supplies or other commodities. Under this method, an actual count is kept of the materials used by an activity, and a part of the total expenditure for the materials is allocated to the activity's accounts on the basis of the amount used by the activity. For example, suppose $1,000 worth of paper was purchased and one-fifth of the paper was used by the adult education program. In this case, one-fifth of $1,000, or $200, would be recorded under adult education accounts.

CONSIDERATIONS IN SELECTING A METHOD FOR PRORATING EXPENDITURES

One of the most important considerations in selecting a method for prorating expenditures is that it have a direct relationship to the activity for which the expenditure is being prorated. To illustrate, floor area has little, if any, direct bearing on determining the workload of a teacher. Consequently, it could not qualify as a desirable basis for prorating teachers' salaries. Yet, floor area is a very significant factor in determining the workload of a janitor, and would be a desirable element in prorating janitors' salaries.

Also important in selecting a method for prorating are the practical considerations involved. The method must be as simple as conditions will allow, and it must be feasible to apply.

No single method will suffice for prorating the many different kinds of expenditures involved in school finance. Within a given job classification, time is usually the most important determinant of workload, and, for a given job, personal services are usually hired on the basis of time. That is, a teacher is paid a full-time salary or a part-time salary on the basis of amount of time on the job. Therefore, time constitutes a most equitable basis for prorating salary expenditures. When it is not possible to prorate salaries easily on a time basis, it is necessary to use some other closely related method.

For some activities, such as general administrative and supervisory salaries, average daily membership or average daily attendance may be the most satisfactory alternate prorating method. This is on the assumption that the more children in membership or in attendance for a given program area (i.e., elementary schools), the greater is the portion of time devoted to the program area by general administrative and supervisory personnel.

For other activities, such as custodial and maintenance salaries, floor area may be the most satisfactory alternate method. This is on the assumption that the greater the floor area allotted to a given program area (i.e., elementary schools), the more work is involved for the custodial and maintenance personnel.

For salary expenditures incurred in providing transportation services for special groups of pupils, or in providing special transportation services, the number of pupils involved and mileage involved, respectively, may constitute the more desirable methods.

For most expenditures other than salaries, time as a basis for prorating is of little value. For many of such expenditures, average daily membership or average daily attendance constitutes a desirable basis for prorating, for similar reasons as those presented in connection with salaries. That is, generally a greater number of pupils use a greater amount of supplies and are the cause for a greater portion of various overhead costs. Also, floor area may constitute a more desirable basis for prorating some other expenditure beside salaries. For certain expenditures, still other methods may be more desirable.

APPLICATION OF THE METHODS FOR PRORATING

There are three basic prorating problems with which this handbook is concerned: (1) Prorating between basic functional classifications, for example, prorating between operation of plant and maintenance of plant accounts, the salary of a person who performs both custodial and maintenance work; (2) Prorating between program areas or organization units (elementary schools, secondary schools, summer schools, community colleges, etc.), for example, prorating between the elementary school and the secondary school accounts, the salary of a teacher who serves both an elementary and a secondary school; and (3) Prorating expenditures to community services accounts, for example, prorating the expenditures for heat, light, etc., for community social activities, forums, plays, etc., which are held in school buildings.

Prorating between functions usually requires only two methods for allocating most expenditures. The time method is recommended for prorating salaries, and the quantity-consumed method is recommended for prorating other kinds of expenditures between functional classifications. These two methods have previously been described.

Prorating between program areas may require several different methods for allocating expenditures depending upon the program areas involved and the kinds of expenditures to be prorated. Table 1 on page 246 shows the methods for prorating between program areas which are recommended for specific kinds of expenditures. In the table, the preferred method for prorating is indicated by the letter P. For times when it is not possible to apply the preferred method, a recommended alternative is indicated in the table by the letter A.

Prorating to community services accounts involves both types of prorating, between functions and between program areas. For that reason, it is treated separately in table 2 on page 247. In the table, the preferred method for prorating is indicated by the letter P. For times when it is not possible to apply the preferred method, a recommended alternative is indicated in the table by the letter A.

Regardless of the method used for prorating, it is important that the same method be used for prorating salaries as is used for prorating personal services in the personnel records. If this is done, it is possible to observe relationships between the services being rendered and the money being spent for such services.

ESTABLISHING STANDARDS FOR PRORATING

In order to obtain the benefits which prorating offers, and to minimize the work involved, school districts may find it expedient, at the beginning of the year or other appropriate time, to determine the general classes of expenditures which are to be prorated and establish standard ratios for the proration of each class. Once set up, the standard ratios could then be applied to the particular classes of expenditures without the necessity for involved calculations every time an expenditure is made. While these ratios would, of course, be estab-

TABLE 1.—*Methods for Prorating Between Program Areas*

Expenditure accounts	Methods for prorating						
	Time	Time-floor-area	ADM or ADA	Hour-consumption	Number-of-pupils	Mileage	Quantity-consumed
1	2	3	4	5	6	7	8
Administration:							
Salaries	P		A				
Other expenses			P				
Instruction:							
Salaries	P		A				
Other expenses			A				P
Attendance and health:							
Attendance services			P		A		
Health services			P		A		
Transportation services					P	P*	
Operation of plant:							
Salaries	P	A					
Heat for buildings		P					
Electricity		A		P			
Gas (not heat)				P			
Water				P			
Other expenses		A					P
Maintenance of plant:							
Salaries	P	A					
Other expenses		A					P
Fixed charges:							
Retirement	P		A				
Rent		P	A				
Property insurance		P	A				
Other fixed charges			P				
Food services and student-body activities:							
Food services			A		P		
Student-body activities:							
Salaries	P		A				
Other expenses			A				P
Community services	Not allocable to program areas.						

*For special transportation services, such as transporting pupils on field trips.

LEGEND—P = Preferred method; A = Alternate method.

lished in view of local conditions, the guides previously presented in this chapter could serve as aids in utilizing equitable methods.

To illustrate the establishment of standards for prorating, a school district might determine to prorate heating expenditures between elementary and secondary school accounts in a situation where both schools share the same building. Referring to table 1, it can be seen that time-floor-area is the recommended basis for prorating expenditures for heat. Since both the elementary and secondary schools are in session approximately the same amount of time, the time factor here can be ignored and the ratio set up on the basis of floor area. In this case, suppose the total floor area of the building was 25,000 square feet, of which the elementary school used 10,000 square feet and the secondary school used 15,000 square feet. The ratio for prorating to elementary school accounts in this case would be 10,000 to 25,000, or two-fifths, and for prorating to secondary school accounts, it would be 15,000 to 25,000 or three-fifths. That is, once the ratio was determined, any heating expenditures during the year could be prorated two-fifths to elementary, and three-fifths to secondary school accounts. In like manner, standard ratios could be established for other classes of expenditures.

In concluding this discussion of proration, it should be emphasized that proration is not being recommended as a substitute for the recording of actual expenditures for different activities when such is feasible. Through the use of adequate coding, it may be possible to record directly many expenditures without prorating. But when it is necessary, the methods recommended in this chapter will provide guidance in establishing a satisfactory system of prorating.

TABLE 2.—*Methods for Prorating to Community Services Accounts*

Expenditure accounts	Methods for prorating				
	Time	Time-floor-area	Hour-consumption	Number-of pupils	Quantity-consumed
1	2	3	4	5	6
Community services (except any services for nonpublic school pupils):					
Salaries	P				
Heat for buildings		P			
Electricity		A	P		
Gas (not heat)			P		
Water			P		
Other expenses					P
Nonpubllic school pupils:					
Textbooks and school supplies					P
Attendance and health services:					
Salaries	P			A	
Other expenses				A	P
Transportation services				P	

Legend—P=Preferred method ; A=Alternate method.

Other uses of program cost accounting

Program cost accounting can be used in the instructional program to determine cost relationships among course areas and courses. When program cost accounting of this type is undertaken, all costs attributable to each course area or course must be accounted for since the primary purpose of this type of accounting is to seek out cost efficiencies and, where feasible, apply them to other course areas and courses.

While the same methods and procedures apply as those that are explained at the beginning of this chapter, generally accounting of this type can be undertaken effectively only by school districts which have the combination of accounting competency and the speed and flexibility of a computer. The volume of analytical work and posting necessary cannot be undertaken economically on either a manual basis or by electronic data processing equipment below the computer level.

Limited program cost accounting

There are degrees of program cost accounting—that is, program cost accounting may be more or less nearly complete. For example, the board of education may decide to add a course in advanced mathematics or in fourth-year German or Russian. It may decide to house the class in a classroom which is available for the period during which the class is to be held. The board decides that the only additional costs to be attributed to the course are instructional and special equipment costs—that all other costs (utilities, custodial services) would be incurred whether or not the course is offered.

If, in establishing a budget for the course or program, the board limits the appropriation to instructional and special equipment items, program cost accounting also should provide for those items only.

In this sense, program cost accounting is twice-limited—once in that it is confined to a very narrow area (one course out of perhaps 250); and again, in that it does not account for all costs of the program. (Utilities and custodial services, for example, could have been included in program costs.)

In school districts which can afford it and which possess the managerial ability to use it properly, this type of program cost accounting can be of great value. However, extreme care must be exercised in its use to make certain that it does not result in the abandonment of courses because their average per pupil cost is higher than for other courses.

In some cases boards of education or school administrators, or both, require program cost accounting for one, several, or all programs but do not budget for those programs; or they budget for programs only by totals and state the budget for the General Fund in terms of function (e.g., Administration, Instruction) and objects (e.g., Salaries, Contracted Services, Supplies), as shown in chapter IV.

In districts where this practice is followed, program costs are accounted for by functions and objects and are controlled by function and object accounts in the Appropriation and Expenditure Ledger; separate Appropriation and Expenditure Ledger sheets are used for program totals.

Either of two types of expenditure ledger sheets is used. Example 1 provides for distribution to all programs by functions and objects and the total expenditure indicated in the total column would be the same as shown on the Appropriation and Expenditure Ledger card for the same functions and objects. When this type of ledger sheet is used expenditures and encumbrances are entered in the same column; at the end of each month the column is totaled and analyzed to arrive at total expenditures and total encumbrances. Expenditure and encumbrance totals may be verified against totals for the same account in the Appropriation and Expenditure Ledger.

Example 2 is similar to the Appropriation and Expenditure Ledger page; it does not contain budget information. One ledger page of this type is maintained for each object and function of each program. Expenditures, encumbrances, and liquidations are entered in separate columns and total columns show total expenditures and total encumbrances. A distribution sheet trial balance must be used to verify accuracy of posting against amounts shown in the appropriation and expenditure ledger.

For examples 1 and 2, which follow, budgetary control would be limited to the Appropriation and Expenditure Ledger account—

APPROPRIATION AND EXPENDITURE LEDGER

Account # 213

Page 1

Account Description *Instruction, Teachers Salaries*

DATE	REF.	APPROPRIATIONS	ENCUMBRANCES		TOTAL ENCUMBRANCES	EXPENDITURES	TOTAL EXPENDITURES	TOTAL ENCUMBRANCES AND EXPENDITURES	UNEMCUMBERED BALANCE
			OBLIGATE	LIQUIDATE					
1966 July 1	J-1	250,000 00							250,000 00
4	J-		240,000 00		240,000 00			240,000 00	10,000 00
14	J-			9,999 00	230,001 00	9,583 00	9,583 00	239,584 00	10,416 00
29	J-			9,999 00	220,002 00	9,791 00	19,374 00	239,376 00	10,624 00

Example 1

PROGRAM COST LEDGER
Fiscal Year 1967

Function: 2-Instruction Object: 13-Salaries, Teachers Account Number 213

Date		Description	Ref	PROGRAM						Total
				Reg. E.& S.	Kinder.	Adult Ed.	Voc. Ed.	Sight Sav.	Hear. Cons.	
1966 July	4	Encumb. Payroll for 1966	J-	185 000 00	12 000 00	8 000 00	23 000 00	6 000 00	6 000 00	240 000 00
	14	Payroll-Expenditure	J-	7 300 00	500 00	333 00	750 00	250 00	250 00	
		Liquidation		(7 708 00)	(500 00)	(333 00)	(958 00)	(250 00)	(250 00)	239 584 00
	28	Payroll-Expenditure	J-	7 500 00	500 00	333 00	958 00	250 00	250 00	
		Liquidation		(7 708 00)	(500 00)	(333 00)	(958 00)	(250 00)	(250 00)	239 376 00
	31	Totals to date	✓	184 384 00	12 000 00	8 000 00	22 992 00	6 000 00	6 000 00	239 376 00
		Expenditures		14 800 00	1 000 00	666 00	1 908 00	500 00	500 00	19 374 00
		Encumbrances		169 584 00	11 000 00	7 334 00	21 084 00	5 500 00	5 500 00	220 002 00

Example 2

PROGRAM COST LEDGER
Fiscal Year 1967

Program: 1 - Regular Elem. & Second. Function: 2 - Instruction Object: 13 - Salaries, Teachers Account Number 1213

Date		Description	Ref.	ENCUMBRANCES			Expend-itures	TOTAL Expend-itures	TOTAL Encumbrances and Expenditures
				Obligate	Liquidate	Total			
1966 July	4	Encumb. Payroll for 1966	J-	185 000 00		185 000 00			185 000 00
	14	Payroll	J-		7 708 00	177 292 00	7 300 00	7 300 00	184 592 00
	28	Payroll	J-		7 708 00	169 584 00	7 500 00	14 800 00	184 384 00

PROGRAM COST LEDGER
Fiscal Year 1967

Program:2 - Kindergarten Function:2 - Instruction Object:13 - Salaries, Teachers Account Number 2213

Date	Description	Ref.	ENCUMBRANCES			Expend-itures	TOTAL Expend-itures	TOTAL Encumbrances and Expenditures
			Obligate	Liquidate	Total			
1966 July 4	Encumb. Payroll for 1966	J-	12 000 00		12 000 00			12 000 00
14	Payroll	J-		500 00	11 500 00	500 00	500 00	12 000 00
28	Payroll	J-		500 00	11 000 00	500 00	1 000 00	12 000 00

PROGRAM COST LEDGER
Fiscal Year 1967

Program:3 - Adult Education Function:2 - Instruction Object:13 - Salaries, Teachers Account Number 3213

Date	Description	Ref.	ENCUMBRANCES			Expend-itures	TOTAL Expend-itures	TOTAL Encumbrances and Expenditures
			Obligate	Liquidate	Total			
1966 July 4	Encumb. Payroll for 1966	J-	8 000 00		8 000 00			8 000 00
14	Payroll	J-		333 00	7 667 00	333 00	333 00	8 000 00
28	Payroll	J-		333 00	7 334 00	333 00	666 00	8 000 00

PROGRAM COST LEDGER
Fiscal Year 1967

Program:4 - Vocational Education   Function:2 - Instruction   Object:13 - Salaries, Teachers   Account Number 4213

Date		Description	Ref.	ENCUMBRANCES			Expenditures	TOTAL Expenditures	TOTAL Encumbrances and Expenditures
				Obligate	Liquidate	Total			
1966									
July	4	Encumb. Payroll for 1966	J-	23 000 00		23 000 00			23 000 00
	14	Payroll	J-		958 00	22 042 00	950 00	950 00	22 992 00
	28	Payroll	J-		958 00	21 084 00	958 00	1 908 00	22 992 00

PROGRAM COST LEDGER
Fiscal Year 1967

Program:5 - Sight Saving   Function:2 - Instruction   Object:13 - Salaries, Teachers   Account Number 5213

Date		Description	Ref.	ENCUMBRANCES			Expenditures	TOTAL Expenditures	TOTAL Encumbrances and Expenditures
				Obligate	Liquidate	Total			
1966									
July	4	Encumb. Payroll for 1966	J-	6 000 00		6 000 00			6 000 00
	14	Payroll	J-		250 00	5 750 00	250 00	250 00	6 000 00
	28	Payroll	J-		250 00	5 500 00	250 00	500 00	6 000 00

PROGRAM COST LEDGER
Fiscal Year 1967

Program:6 - Hearing Conservation Function:2 - Instruction Object:13 - Salaries, Teachers Account Number 6213

Date	Description	Ref.	ENCUMBRANCES			Expenditures	TOTAL Expenditures	TOTAL Encumbrances and Expenditures
			Obligate	Liquidate	Total			
1966								
July 4	Encumb. Payroll for 1966	J-	6 000 00		6 000 00			6 000 00
14	Payroll	J-		250 00	5 750 00	250 00	250 00	6 000 00
28	Payroll	J-		250 00	5 500 00	250 00	500 00	6 000 00

TRIAL BALANCE
PROGRAM COST LEDGER
July 31, 1966

Account	PROGRAM						Total
	Reg. E.&S.	Kinder.	Adult Ed.	Voc. Ed.	Sight Sav.	Hear. Cons.	
213							
Expenditures	14 800 00	1 000 00	666 00	1 908 00	500 00	500 00	19 374 00
Encumbrances	169 584 00	11 000 00	7 334 00	21 084 00	5 500 00	5 500 00	220 002 00
Totals	184 384 00	12 000 00	8 000 00	22 992 00	6 000 00	6 000 00	239 376 00

Summary

Program Cost Accounting is concerned with maintaining separate expenditure accounts for each program for which separate financing is provided or separate statements are required.

Program cost accounting may be general and require specific accounting for each and all programs. It may be limited to a few specific programs such as new programs, those financed by special appropriation, or those financed from Federal funds.

In accounting for **Program Costs** the following steps should be observed:

1. Know precisely what the program will involve.

2. Determine which accounts in the regular chart of expenditure accounts will be needed for the new program and then determine additional accounts needed.

3. Prepare the budget in terms of those accounts.

4. Prepare Appropriation and Expenditure Ledger sheets or cards for each account.

5. Prepare the journal entry.

6. Post it to the proper accounts.

7. Post all encumbrances, expenditures, and liquidations relating to the program to its accounts.

8. Prepare and issue statements which reflect the status of the budget for the program.

Where an expenditure is incurred which involves more than one program, costs must be prorated.

CHAPTER XIV

Machine Accounting

The words "machine accounting," as sometimes used, seem to indicate that there is a considerable difference in the principles of keeping records by machine from those used in keeping them by hand. Actually, however, when accounts are posted by typewriter, a machine is being used. The depression of a key to record a number differs from the hand-posted recording of the number only in the technique used.

The advantages of machine accounting lie mainly in the ability to enter amounts once and then to reuse them whenever necessary without having to reenter them, and in the ability to perform arithmetic operations with these amounts and to record the result without external assistance.

Except for the typewriter, the adding machine is the simplest aid in posting financial records. It has long been customary for the bookkeeper to attach an adding machine tape to a series of similar documents and to post only the total shown on the tape to the ledger accounts. However, this practice did not serve to record the individual amounts on ledger accounts. When an adding machine was developed with the carriage wide enough to insert the ledger card or sheet, it became possible to print both the individual entries and the resultant total directly on the record. This was a major step forward, but the original figure was lost once it had been printed and only the cumulative total was retained in the machine.

This deficiency was overcome by incorporating two or more registers into one machine. Each register was really an adding machine operating from the same keyboard. Later developments made it possible for an amount or several amounts to be entered and stored temporarily in one or more registers and for each register to be subtotaled or totaled independently of the others. This became, in effect, the first posting machine. An amount could be entered in two or more registers, stored intact in one, and added to or subtracted from other amounts in other registers. The movable carriage made it possible to print these figures in whichever column was desired, and adding pages with carbon paper made it possible to print the figure on more than one form at the same time. This type of machine was in widespread use at one time and still has many applications in the field of accounting. There are, however, many records on which it is desirable to have an explanation or a name accompany the figure, so that machines were developed which combined a typewriter with the multiple register adding machine with a movable carriage to produce the bookkeeping machine, frequently the first machine considered by a school district in progressing toward machine accounting.

Obviously, the use of such a bookkeeping machine does not change any of the principles discussed in this handbook. The advantages gained by use of this type of machine lie in the ability to:

1. Use a figure more than once after it has been first entered;
2. Make arithmetic calculations involving these amounts after they have been entered;
3. Record these amounts on more than one document simultaneously;
4. Print totals or subtotals of any register whenever desired on the form; and
5. Write whatever words are needed in connection with the posting.

All of the ledger and journal accounts which have been discussed are still valid accounts, but instead of being recorded on ruled papers, which are bound in a journal or ledger book, they may be posted on a card which may vary in size or shape to best suit the machine being used.

Although it became possible to enter and store an amount temporarily in a register, and further to print out the amount on a record form, if the register were cleared before this amount was needed for a later calculation, it was necessary to reenter it. It became apparent, therefore, that it would be helpful if information which is used repeatedly in successive operations could be permanently stored in a medium other than printed records and read back.

Near the turn of the century a man named Herman Hollerith devised the now familiar punched card as a storage medium and designed several crude machines which could read and perform several operations on information contained in punched cards. As this technology, now called "data processing," progressed, more sophisticated machines were developed and additional storage media were devised. With the advent of magnetic tape storage, it is now possible to pack millions of characters of information on a single small reel of tape, and have access to this information in millionths of a second.

The punched card machines and computers available to today's accountant have eliminated much of the repetitive entry and reentry of information, freeing him to devote his time to insuring that the fundamental principles of accounting are present. The forms of the journals and ledgers have been changed to accommodate the machines which are being used, but debit postings must still equal credit postings; assets must still equal liabilities plus fund balances. In fact, more and more attention must be paid to these relationships to insure that the data are correctly handled in the internal processes of the machine.

ADP and EDP are terms frequently encountered which need clarification. ADP stands for Automatic Data Processing, a term generally restricted to data processing systems which employ punch card machines. These machines are designed to punch cards, verify punched cards, sort, collate, reproduce punched cards, and print various kinds of reports from punched cards while adding or subtracting certain amounts contained in the cards. A basic punch card machine pattern consists of a key punch, sorter, and accounting machine (adds, subtracts, and prints from punched cards). Such a pattern can be leased and can perform many functions in addition to accounting. Depending upon needs and volume of activity, other machines may be added to perform additional functions.

EDP means Electronic Data Processing and is applied to a punched card machine pattern combined with a computer system. Computers differ from punch card machines generally in speed, capacity, and flexibility, but specifically in that the computer receives its instructions in the form of a program which it stores in its "memory" and calls upon as needed. All of the instructions are executed electronically within the machine. A magnetic storage medium is associated with the computer which may be magnetic tape similar to that of a tape recorder, magnetic disk, or magnetic drum.

Input to ADP is generally through punched card although mark-sensing (a pencil mark on a card which can be read by the machine) is used in some systems. Input to a computer can be punched card, magnetic tape, disk, or drum as well as by optical scanning of a source document. Additional information can readily be obtained from the various equipment vendors.

In using an adding machine, the accountant determines directly whether the item should be added, subtracted, or multiplied, and depresses the proper key to accomplish this. With the bookkeeping machine, the various registers are controlled by tabs or pins on a control panel or bar. In a punched card system, instructions are given the machines by wired control panels. On a computer, the internal operation is directed by a program or series of instructions written in a code language that the machine "understands," and fed into the machine in the same fashion that other information is introduced.

It is the task of the programmer to write the instructions in minute detail so that every bit of information is treated exactly as the accountant specifies. For the accountant to be sure that the accounting principles are being followed as exactly as if he were posting them by hand in a bound ledger, the programmer must know specifically what he is to tell the computer to do with each bit of information. Neither the accountant nor the programmer should bypass the preparation of clear specifications nor give it less than major importance, for this is the one document that both must understand and on which both must be in agreement as representing the task that the computer is to perform.

This brief summary, of course, cannot provide the accountant with detailed information on the various types of machine accounting or electronic data processing equipment that are available. It should, however, serve to emphasize that all of these processes are simply techniques to replace the paper and pencil. No rules of accounting are changed, suspended, or repealed. A new vocabulary may be required where words such as hardware, software, input, output, random access, and others have new significance or are used more frequently, but the old vocabulary of debits, credits, assets, liabilities, and fund balance are also present with their established unchanged meanings and their original paramount importance.

Summary

(1) The **Principles of Accounting** do not change as progression is made from hand-posted records to machine accounting.

(2) One of the main advantages of **Machine Accounting** is the ability to enter amounts once and subsequently reuse them whenever needed without having to reenter them.

(3) A **Bookkeeping Machine** combines the typewriter with the multiple register adding machine.

(4) **Automatic Data Processing** (**ADP**) is a data processing system which employs punched card machines so interrelated as to make it possible to reuse data as often as needed once it is converted to punched cards.

(5) **Electronic Data Processing** (**EDP**) is a data processing system using electronic computers which have greater speed and capability than punched card machines.

(6) A **Computer** is a device which accepts information, applies prescribed processes to the information, and supplies the results of these processes. A computer normally consists of input and output devices, storage, arithmetic, and logical units, and a control unit.

CHAPTER XV

Glossary of Terms

Account

An Account is a financial record into which are posted all transactions relating to the specific asset, liability, fund balance, revenue, expenditure, or budgetary item identified in the account title.

Accountant

An Accountant is one who by virtue of education and experience is competent to (1) design accounting systems; and (2) record, classify, and summarize financial transactions and interpret and report on the results of financial operations and on the financial status of the school district.

Accounting

Accounting is concerned with recording and reporting activities and events affecting personnel, facilities, materials, or money of an administrative unit and its programs. Specifically, it is concerned with determining what accounting records are to be maintained, how they will be maintained, and the procedures, methods, and forms to be used; recording, classifying, and summarizing activities or events; analyzing and interpreting recorded data; and preparing and issuing reports and statements which reflect conditions as of a given date, the results of operations for a specific period, and the evaluation of status and results of operations in terms of established objectives.

Accounting Period

An Accounting Period is a period of time at the end of which and for which records are maintained and financial statements are prepared. In public school accounting the most common accounting periods are months and the fiscal year (usually beginning July 1 and ending the following June 30). It is also referred to as a fiscal period.

Accounting Procedure

The term Accounting Procedure refers to the policy and systematic arrangement of methods and operations, and the flow of documents for recording accounting information so as to provide internal control and produce accurate and complete records and statements.

Accounting System

An Accounting System consists of the records and procedures used in carrying out and integrating the accounting function.

Accounts Payable

Liabilities (in whole or in part) which have been charged as expenditures in the records of the district, but for which payment has not been made are called Accounts Payable.

Accounts Receivable

Unpaid balances or amounts owed to the school district by individuals or others are called Accounts Receivable.

Accrual Basis

The extent to which accrued items (revenue earned but not yet received in cash or expenditures incurred but not yet paid) are or are not recorded in the accounting records varies among school districts.

An accounting system which includes revenue when it is earned though not yet collected and expenditures when incurred but not yet paid is said to be on an "Accrual Basis."

A system which includes as revenue only cash received and as expenditures only cash paid out is said to be on a "Cash Basis."

Lying between the two are modifications referred to as a Modified Cash or a Modified Accrual Basis. For example, an accounting system may recognize expenditures at the time liabilities are incurred (whether paid or unpaid) but recognize revenues only when cash has been received. Or, a system may recognize liabilities when incurred (whether paid or unpaid) and recognize all cash revenue and uncollected revenue due from the State. These are examples of the Modified Accrual Basis.

Some States and local school districts recognize neither accrued revenue nor accrued expenditures but follow a practice under which the books are "kept open" for periods of 30 to 60 days in order that revenue for the fiscal year which has been earned but not received by the fiscal year ending date may be recorded in the fiscal year and so that expenditures incurred but not paid by the year ending date may also be recorded in the fiscal year. This is the most common use of a Modified Cash Basis.

The accrual and cash bases are explained here so that they may be understood. *Generally accepted governmental accounting principles recognize only complete accrual accounting.* The National Committee supports those principles.

Accrue

Accrue means to record revenue when earned and expenditures when incurred regardless of when the revenue is actually received or the expediture is actually paid.

Accrued Expenses

Expenses which have been incurred and are recorded in the accounts for which payment has not been made are called Accrued Expenses.

Accrued Interest Payable

Interest which is due and payable and has been recorded in the Payable accounts as an expenditure but for which payment has not been made is called Accrued Interest Payable.

Accrued Interest Receivable

Accrued Interest Receivable is interest which has been earned and has been recorded as revenue but which has not been collected.

Accrued Revenue

Accrued Revenue is revenue which has been earned, is receivable, and has been recorded in the accounts, but has not been collected.

Adjusting Entries

Adjusting Entries are entries made at the end of an accounting period to bring accounts up to date. For example, a school district may have prepaid insurance; that portion of the prepayment which pertains to the accounting period is changed to expenditures by an adjusting entry which debits Expenditures and credits Prepaid Insurance.

Allot

Allot means to apportion a budget or an appropriation to accounts. For example, a total budget is appropriated; the amount of that budget to be used in a particular account is alloted to it.

Allotment

An Allotment is the amount apportioned to an account. (See appropriation.)

Allotment Ledger

An Allotment Ledger includes all the accounts to which allotments have been made for a particular fund. In it are recorded both allotments and expenditures. For our purposes, an Allotment Ledger is the same as the Appropriation and Expenditure Ledger.

Appropriation

The term Appropriation has several meanings. In the broad sense, an Appropriation is the total amount approved by the tax levying body for all school purposes. In a narrower sense, it may be the amount approved for a specific fund. Or, according to a still narrower definition, it may be the amount appropriated for a specific account.

These variations in meaning of appropriation are due to the variations in detail of Appropriations made by tax levying bodies. For example, the tax levying body may appropriate a total amount for schools. That amount is technically the Appropriation. On the other hand the tax levying body may approve a "line-item" (or detailed) budget and levy taxes to meet that budget. In that case, technically, the "line-items" or detailed items are Appropriations. It is this latter meaning that is currently in use.

Appropriation and Expenditure Ledger

The ledger containing ledger sheets or cards for each account for which funds are appropriated and in which funds are expended is called the Appropriation and Expenditure Ledger.

Appropriation Expenditure

An Appropriation Expenditure is an expenditure chargeable to an appropriation, as distinguished from expenditure for a purpose for which no appropriation has been made.

Assets

Assets are things of value which a school district owns.

Audit

An Audit is an examination of documents, records, and accounts for the purpose of (1) determining the propriety of transactions; (2) ascertaining whether all transactions have been recorded properly; and (3) determining whether statements drawn from accounts reflect an accurate picture of financial operations and financial status.

Audit Report

An Audit Report is the report prepared by an auditor following a completed audit; it should include: (1) Scope of the audit; (2) Summary of findings; (3) Recommendations; (4) Certificate; and (5) Financial Statements.

Balance Sheet

A Balance Sheet is a formal statement of assets, liabilities, and fund balance at any given time but usually at the end of a fiscal period.

Bank Reconciliation

A Bank Reconciliation is a statement which is normally prepared at the end of the month and at the end of the year and which reconciles the bank balance as shown on the books with the bank balance as reflected on the bank statement.

Bond

A Bond is a written promise to pay a specified sum of money (called the face value) at a fixed time in the future (called the date of maturity), and carrying interest at a fixed rate, payable periodically.

Bond Discount

Bond Discount is the excess of the stated value of a bond over its selling price.

Bond Premium

Bond Premium is the excess of the selling price of a bond over its stated value.

Bond Register

A Bond Register is a record in which are recorded by number the bonds issued and redeemed, dates of issue and redemption, and principal and interest payments.

Bonded Debt

Bonded Debt is the total amount of debt owed on outstanding bonds.

Budget

A Budget is a plan of financial operations which contains an estimate of proposed expenditures for a given period and the proposed means of financing them.

Budgetary Accounts

Budgetary Accounts are accounts which reflect budgeted amounts and their status as related to expenditures and encumbrances. Budgetary Accounts include General Ledger accounts for Estimated Revenue, Appropriations, and Encumbrances; and estimated revenue and appropriations subsidiary records.

Cash

Cash consists of currency, checks, money orders, and bankers' drafts on hand, on deposit with the Government official responsible for custody of school district funds, or deposited in the bank or banks.

Cash may be qualified as Cash, meaning on hand, and/or Cash in Bank.

Cash Basis

See discussion of accounting bases under Accrual Basis (p. 261).

Cash Discount

A Cash Discount is an allowance given by vendors for payment of invoices within a stated period of time.

Chart of Accounts

A Chart of Accounts is a list of all accounts generally used in an individual accounting system. In addition to account title, the chart includes an account number which has been assigned to each account. Accounts in the chart are arranged with accounts of a similar nature, for example, assets and liabilities.

Check

A Check is a written order on a bank to pay a specified sum of money on demand to a person named on the Check or to the bearer.

Closing Entries

Closing Entries are entries which are made at the end of the accounting period to transfer balances in General Ledger Receipt, Expenditure, Appropriation and Estimated Revenue accounts to the Fund Balance account.

Coding

Coding is a system of numbering accounts in such manner that the numbers assigned may be used as abbreviations for account titles in coding invoices, preparing journal entries, and in making similar entries.

Compound Entry

A Compound Entry is a balanced entry which contains two or more debits or two or more credits.

Control Accounts

Control Accounts are: (1) Accounts in the General Ledger for which subsidiary ledgers are maintained; or (2) accounts in other ledgers for which further detailed accounts are maintained. To illustrate—(1) for the General Ledger Appropriations and Expenditures accounts, a subsidiary ledger is maintained—Appropriation and Expenditures Ledger; (2) within the Appropriation and Expenditure Ledger, if a summary account is maintained for Administration or Instruction, or any of the major functions, and is supported by accounts which detail expenditures, the summary account is a control account.

Cost

Cost is the amount paid or the value of assets exchanged for a property or service.

Cost Accounting

Cost Accounting is that phase of accounting which provides for the accumulation of costs of a specific program or service.

Cost Ledger

A Cost Ledger is a ledger in which accounts are maintained for costs of a specific program or service.

Credit

A Credit is an entry in the right side of an account.

Current Assets

Current Assets are cash or anything that can be readily converted into cash.

Current Funds

Current Funds are monies received during the current fiscal year from revenue receipts which can be used to pay obligations currently due; they include fund balances reappropriated for the current fiscal year.

Current Liabilities

Current Liabilities are debts which the school district expects to pay within a short period of time, usually a year or less.

Debit

A Debit is an entry in the left side of an account.

Deficit

A Deficit is the excess of the obligations of a fund over the fund's resources.

Direct Expenses

Direct Expenses are those which can be easily and readily identified with a specific program or activity.

Double Entry

Double Entry refers to an accounting system in which for each entry in the debit side of an account or accounts there are entries in the same total amount in the credit side of another account or other accounts.

Encumbrances

Encumbrances are obligations arising from the issuance of purchase orders, contracts, and salary or other commitments which are chargeable to a particular appropriation (or to particular appropriations) and for which a part of the appropriation is reserved.

Entry

An Entry is the completed recording of a transaction in a journal, or the posting from the journal to the appropriate ledger account.

Equity

Equity is the mathematical excess of assets over liabilities. Generally this excess is called Fund Balance.

Estimated Revenue

Estimated Revenue is a budgetary account. For school districts using the accrual basis of accounting, revenue estimated to accrue during the fiscal year is called Estimated Revenue. For districts on a cash basis, Estimated Revenue is revenue estimated to be received during the fiscal year.

Expenditures

Expenditures are charges incurred, whether paid or unpaid, which are presumed to benefit the current fiscal year.

Fidelity Bond

A Fidelity Bond is a bond which guarantees the school district against losses resulting from the actions of the employees of the school district.

Fiscal Period

A Fiscal Period is any period at the end of which a school district determines its financial condition and the results of its operations.

Fiscal Year

A Fiscal Year is any 12-month period at the end of which a school district determines its financial condition and the results of its operations and closes its books. The most common fiscal year begins on July 1 and ends the following June 30.

Fixed Assets

Fixed Assets are land, buildings, machinery, furniture, and other equipment which the school district intends to hold or continue in use over a long period of time.

Function

A Function is a group of activities which have a common objective or which are closely related. For example, within the function of Instruction, the activities of the supervisor or consultant, principal, teacher, librarian, or counselor have either the same objective or are closely related activities.

Fund

The assets, liabilities, and fund balance of each of a school district's "businesses" constitutes a "Fund." Stated another way, a Fund is an independent accounting entity with its own assets, liabilities, and fund balances. Generally, funds are established to account for financing of specific activities of a school district's operations.

Fund Balance

The mathematical difference between assets and liabilities is called the Fund Balance.

Fund, Cafeteria

The Cafeteria Fund is the fund which finances those activities which have as their purposes the preparation and serving of food.

Fund, Construction

The fund which finances the construction of school buildings and the acquisition of any related land and equipment is called a Construction Fund.

Fund, Debt

A Debt Fund is a fund which is used to finance the payment of principal and interest on debt.

Fund, General

The General Fund is used to finance the ordinary operations of the school district and to finance those operations not provided for in other funds.

General Ledger

The General Ledger is that group of accounts which constitute the basic accounts of a fund. Included are those summary accounts for which detailed subsidiary ledgers are maintained.

Imprest System

An Imprest System is a petty cash system in which a fixed amount of money is set aside for disbursement, usually by cash. At certain intervals, a report is prepared for the amount disbursed and the fund is replenished. The report is used as a basis for charging expenditures to the proper accounts. (Note:— On establishing the system an entry is made debiting Petty Cash and crediting Cash. When Petty Cash is replenished an entry is made debiting Expenditures and crediting Cash.)

Indirect Expenses

Indirect Expenses are those which cannot be easily or readily identified with a specific program or activity.

Interfund Transfer

Monies transferred between funds under the control of the school board are called Interfund Transfers.

Inventory

An inventory is a detailed list of items on hand. The list may include, in addition to quantity and description, units of measure and unit and total costs.

Investments

Investments are securities or other property in which money is put to earn interest.

Invoice

An Invoice is an itemized list of merchandise purchased from a particular vendor. The list includes quantity, description, price, terms, date, and the like.

Journal

A Journal is the accounting record in which the details of financial transactions are first recorded.

Ledger

A Ledger consists of all the accounts of a particular fund or all those detail accounts which support a particular General Ledger account. (See General Ledger and Subsidiary Ledger.)

Liquidation

A Liquidation is a reduction of encumbrances.

Payroll

A list of individual employees entitled to pay, with the amounts due to each for personal services rendered during the pay period is called a Payroll.

Petty Cash

Petty Cash is a sum of money, either in the form of cash or a special bank deposit, set aside for use in making immediate payments of comparatively small amounts or in making change.

Posting

Posting is the transferring of detailed or summarized data which has been recorded in a journal to ledger accounts.

Prepaid Expenses

Prepaid Expenses are those which are paid during a fiscal year or period, and for which benefits are to be received in succeeding fiscal years or periods. Examples of prepaid expenses are prepaid insurance and prepaid rent.

Proprietary Accounts

Proprietary Accounts (or "real" accounts) are those which reflect actual financial conditions and operations. Accounts involved are assets, liabilities, reserves, fund balance, revenue and expenditures.

Prorating

Prorating is the allocation of parts of an expenditure to two or more different accounts in proportion to the benefits received by the programs or activities of which the accounts are a part.

Purchase Order

A Purchase Order is a written request to a vendor to provide material or services at a price set forth in the order and is used as an encumbrance document.

Purchases Discount

A Purchases Discount is an allowance made because of either volume purchasing or seasonal purchasing.

Refund

A Refund is a return of an over-payment or over-collection. The return may be either in the form of cash or a credit to an account.

Reimbursement

A Reimbursement is the return of an over-payment or over-collection in cash.

Requisition

A Requisition is a written request to a purchasing officer for specified articles or services. It is a request from one school official to another school official, whereas a purchase order is from a school official (usually the purchasing officer) to a vendor.

Reserve

A Reserve is an amount set aside for some specified purpose.

Retained Percentage

A Retained Percentage is an agreed-on percentage of a contractor's requisition which is withheld from payments pending satisfactory completion of the project.

Revenue

Revenue is an addition to assets which does not incur an obligation and does not represent exchanges of property for money.

Revenue Ledger

A Revenue Ledger is the subsidiary ledger in which the detailed revenue accounts are maintained.

Stores

Stores are supplies and equipment on hand in store rooms.

Subsidiary Accounts

Subsidiary Accounts are accounts which contain detailed information in support of control accounts in the same ledger or in a General Ledger.

Subsidiary Journal

A Subsidiary Journal is a journal in which are recorded transactions of like nature. For example, a Cash Journal is a commonly used journal; in it are recorded all cash transactions.

Subsidiary Ledger

A Subsidiary Ledger contains all the detail accounts which support a particular General Ledger account.

Summary Account

A Summary Account is an account that is used to consolidate items of a broad category. (See Control Accounts.)

Surplus

Surplus, a term generally used in governmental accounting, is the arithmetic excess of assets over liabilities. The equivalent term in public school accounting is fund balance.

Taxes

Taxes are charges levied by government for the purpose of financing government services.

Taxes Receivable

Taxes receivable are those taxes which are due and receivable but which have not as yet been collected.

Trial Balance

A Trial Balance is a listing of all accounts and their balances for the purpose of determining whether total debits equal total credits. It is normally used to verify the accuracy of posting and as the first step in the preparation of financial statements and reports.

Unappropriated Surplus

The term "Unappropriated Surplus" refers to that portion of a surplus (fund balance) which is not segregated for or appropriated to a specific purpose or specific purposes.

Unencumbered Balance

An Unencumbered Balance is the balance remaining in an appropriation after deducting encumbrances and expenditures.

Unexpended Balance

An Unexpended Balance is the balance remaining in an appropriation after deducting expenditures.

Unliquidated Encumbrances

Unliquidated Encumbrances are outstanding encumbrances. They cease to be encumbrances when paid or when the actual liability is set up.

Warrant

A Warrant is an order drawn by the school board on the school district's treasurer ordering him to pay a fixed amount to a payee named on the Warrant. In a fiscally dependent school district, the order is drawn on a city or county treasurer. Once signed by the treasurer the warrant becomes a check payable by a bank named on the warrant by the treasurer.

Warrants Payable

Warrants Payable are warrants issued by the school board but not yet signed by the treasurer.

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